



1. Why do small businesses seek financing?

Small businesses borrow mainly for four reasons: to start a business, purchase inventory, expand, or to strengthen the firm’s financial health. Firms choose different means of financing depending on the intended purpose.

2. What percentage of small businesses seek financing?

The financing needs of small businesses vary greatly by employer and non-employer firms and by age and industry. According to the Federal Reserve Banks, in 2020, the share of employer firms seeking financing was 37%. 24% of non-employer firms sought financing. Only 37% of employer firms received the full amount sought in 2020. 29% of larger nonemployer firms received full funding, compared to only 17% of smaller nonemployer firms in 2020.

Source: SBCS

3. Where does small business financing come from?

Business financing comes from numerous sources categorized either as internal (family and friends/personal savings) or external (bank loans). Existing businesses often use retained business earnings. 77% of businesses used business earnings as their primary source of funding in 2019, compared with 64% in 2016.

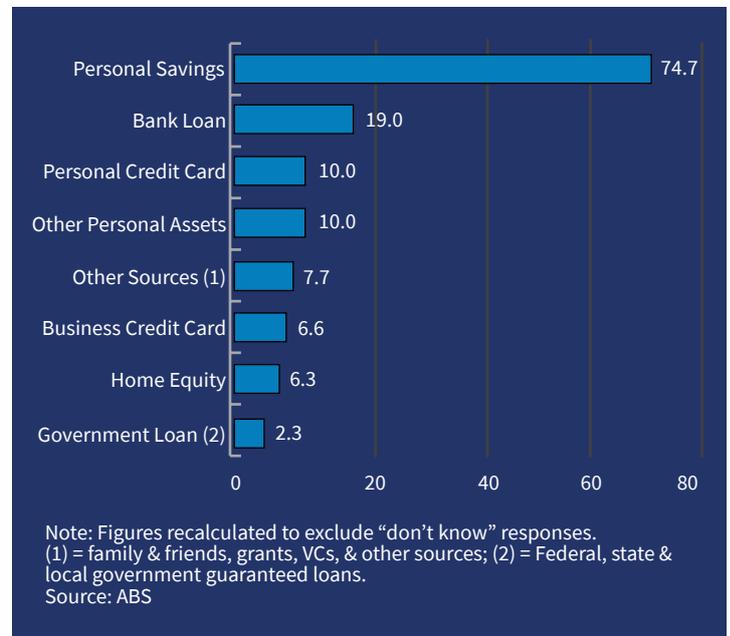
Source: SBCS

4. How are new businesses financed?

New business financing options typically fall into two categories: debt and equity. New business owners often depend on their own resources for start-up capital. 75% of new businesses use personal savings while 19% report using a bank loan for startup capital (Figure 1). Unconventional sources can also play a critical role in meeting a firm’s financial needs. 17% of new employer businesses report using credit cards while 11.3% of new employer firms used no capital.

Source: ABS

Figure 1. Percent Share of Start-Up Financing



5. How large is the small business financing market?

Based on the June 2020 Call Reports, total small business loans \$1 million or less amounted to \$895 billion. Most of these loans were from the Paycheck Protection Program (PPP). Small businesses also use other lending sources, such as finance companies, online lending platforms, and other unconventional sources. The total funding market was roughly \$1.4 trillion in 2020 (Figure 2).

Source: FDIC

6. How much capital do startups need?

Businesses can start with a range of capital. Over half (50.9%) of all employer firms start with less than \$25,000. Meanwhile a sizeable number (12%) use over \$250,000 to start (Table 1).

Source: ABS



This report primarily uses the most recent financing data available from the US Census Bureau’s Annual Business of Survey (ABS). The 2018 ABS is used which covers characteristics of employer firms for reference year 2017. Statistics from the ABS data used pre-date impacts of the COVID-19 pandemic. All other sources reflect data collected during the COVID-19 pandemic.

Table 1. Amount of Capital Needed to Start a Business
(Percent of Firms)

	Small Firms (fewer than 500 employees)
Less than \$5,000	24.1
\$5,000 to \$9,999	11.7
\$10,000 to \$24,999	15.1
\$25,000 to \$49,999	12.0
\$50,000 to \$99,999	12.8
\$100,000 to \$249,999	12.8
\$250,000 to \$999,999	8.9
\$1 million or more	2.6

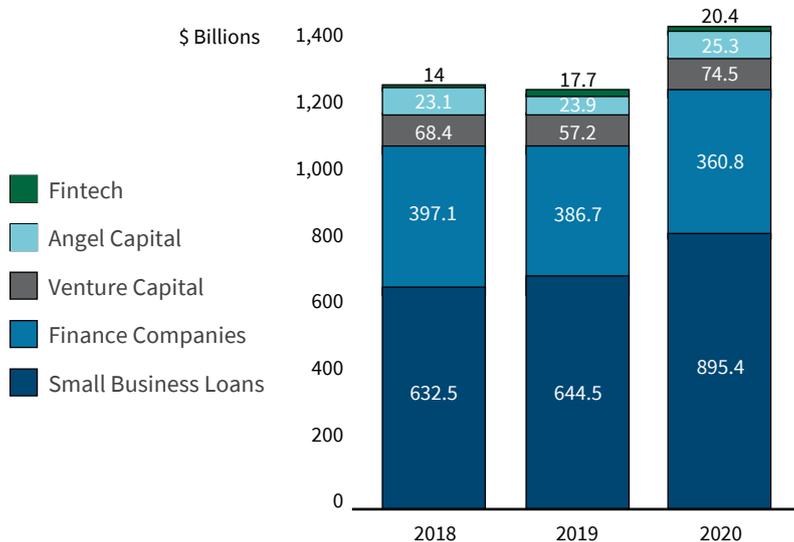
Note: Figures recalculated to account for “don’t know” and NA responses.
Source: ABS

7. How important is bank financing to business owners?

While the financing needs of small businesses differ, established firms with a proven record have a better chance of obtaining funds from bank lenders. 63% of business owners did not use bank financing. Of those firms using bank financing, roughly 46% of them obtained \$50,000 or more from a bank. The comparable percentages for male, female, and equally-owned firms using bank financing were 49%, 37%, and 45% respectively (Table 2). A small percentage (10%) of all firms obtained less than \$5,000 from a bank. Receiving less credit than needed may hinder future growth potential of the business.

Source: ABS

Figure 2. Financing by Category



Note: Most of the data is for the calendar year.

Source: Federal Deposit Insurance Corporation (small business loans); Federal Reserve G.20 Survey (finance company lending); National Venture Capital Association, 2020 Yearbook (fintech, and venture capital); Center for Venture Research, University of New Hampshire (angel capital).

Table 2. Amount of Financing from Banking Institutions
(Percent of Firms)

Amount	Male-Owned	Female-Owned	Equally Male/Female Owned	All Firms
\$1 to \$9,999	18.3	27.0	19.7	20.3
\$10,000 to \$49,999	33.0	36.1	35.5	34.0
\$50,000 to \$249,999	29.8	25.3	28.8	28.7
\$250,000 or more	18.9	11.5	16.0	17.0

Note: Figures recalculated to account for \$0 amount and “don’t know” responses.
Source: ABS

8. What role does Fintech play for small businesses during the pandemic?

Financial intermediaries like Fintech help provide services to borrowers underserved by the traditional banking system. Fintech lenders were instrumental in assisting the SBA to disburse Paycheck Protection Program funds to small businesses during the pandemic. The average amount of PPP distributed by Fintech lenders to small businesses was \$18,100.

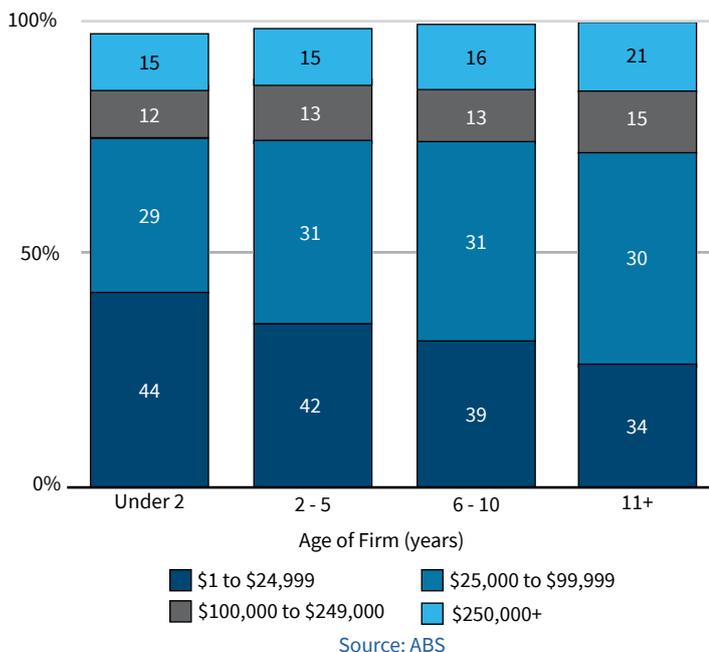
Source: SBA

9. How much debt do small businesses carry?

The amount of debt that a business carries differs with age, size, and industry of the firm. According to the 2021 Small Business Credit Survey, 79% of all small employer firms and 59% of nonemployer firms had an outstanding debt in 2020. The majority of young firms are likely to have less debt compared with established firms (Figure 3).

Source: SBSCS

Figure 3. Bank Loans for Employer Firms by Age



10. How much capital do women-owned firms use to start an employer business?

Like other businesses, women-owned employer firms use a wide range of capital to start. 41% of women business owners tend to start with capital amounts less than \$10,000. Women are less likely to use bank loans compared to their male counterparts. This may put women-owned firms at a disadvantage since an early relationship with a bank may be critical for future business financing. About 13.1% of women-owned ventures did not use any funding compared to 11.5% of male-owned ventures.

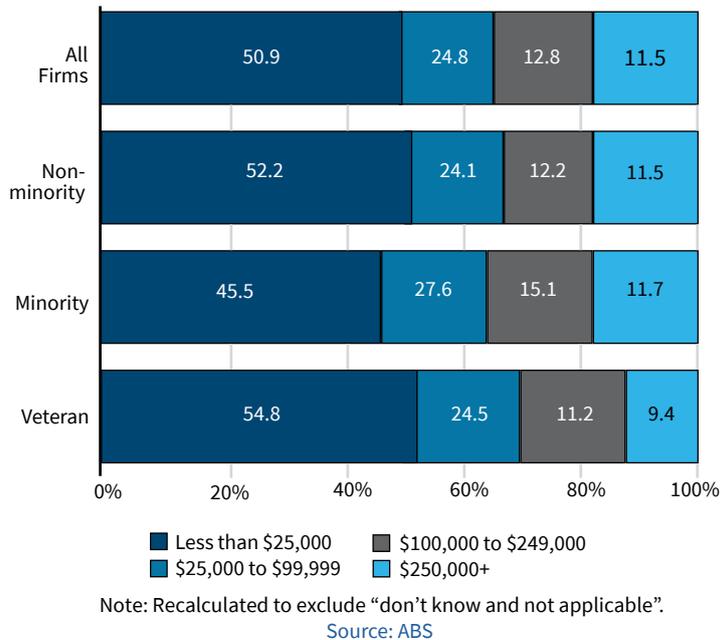
Source: ABS

11. How much capital do veteran-owned firms use to start an employer firm?

Veteran-owned firms were more likely to use smaller amounts of startup capital compared with other firms. For instance, nearly 55% of veteran businesses used less than \$25,000 as startup capital and 9.4% used \$250,000 or more. The comparable amount for all firms was 51% and 11.5% respectively (Figure 4).

Source: ABS

Figure 4. Amount of Startup Capital by Employer Firm

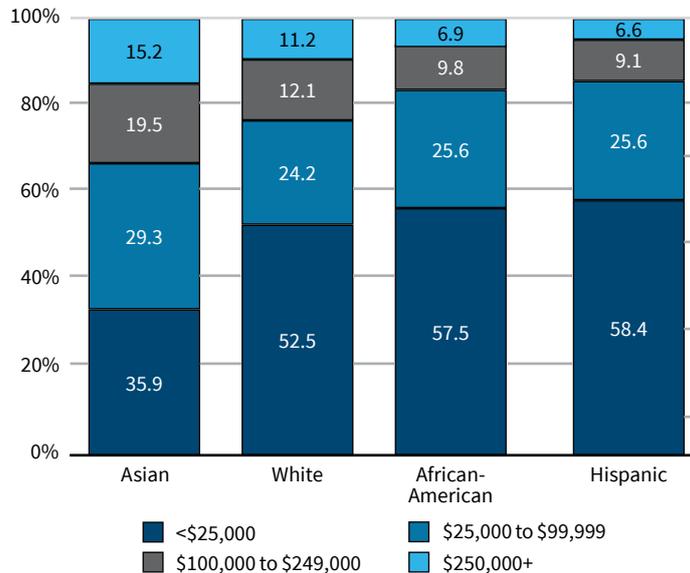


12. How much capital do minority-owned firms use to start an employer business?

While most businesses start with less than \$25,000, minority-owned firms as a group were more likely to start with larger amounts. Over 26% of minority firms used over \$100,000 to start compared with 24.3% of all businesses. The amount of startup capital for individual minority groups differed. Over 57% of Black and 58% of Hispanic-owned firms used under \$25,000 as startup capital. Asian-owned firms were more likely to use larger amounts with roughly 35% using over \$100,000 (Figure 5). However, firms owned by people of color in 2020 reported facing significant financial challenges. 92% of Black-owned firms reported experiencing financial challenges, followed by 89% of Asian-owned firms, which had the largest change of 19% over the 1-year period. 85% of Hispanic-owned firms reported financial challenges, while White-owned firms were the least likely (79%) to report financial challenges.

Source: ABS, SBCS

Figure 5. Startup Financing Used by Business Owner



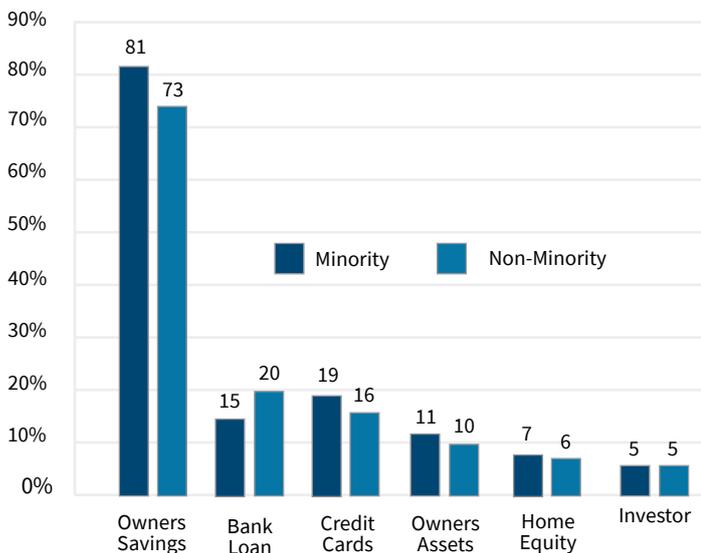
Source: ABS

13. Where does minority-owned business financing come from?

Minority-owned firms use the same funding sources as nonminority-owned firms, but in different amounts. For example, minority firms tend to self-finance their ventures and make use of credit cards. (Figure 6 & Table 3). About 12% of nonminority firms did not use financing compared with 9% of minority firms.

Source: ABS

Figure 6. Sources of Funding for Employer Firms



Source: ABS

14. How successful are firms that apply for credit?

While not every applicant had all their financing needs met, 75% of applicants received financing. In 2020, 37% of applicants got the full amount sought, compared to 51% of applicants the previous year.

Source: SBSCS

15. What percentage of small businesses sought emergency funding during COVID-19 pandemic?

While over 90% of firms applied for some type of emergency funding during the pandemic, the PPP was used by 82% of employer firms, making it the most commonly used program. For nonemployer firms, EIDL loans were the most sought at 37%. 93% of PPP funds were distributed through SBA certified depository lenders.

Source: SBSCS, Advocacy

16. What is the default rate for small business loans?

The default rate for small business loans remains low according to PayNet’s index. The year-to-year small business default rate declined from 3.3% in October 2020 to 2.1% in October 2021.

Source: PayNet

17. What is the status of the venture capital, angel, and IPO markets for small businesses?

Angels are accredited investors who are qualified based on federal securities law. The amount of venture and angel capital are a relatively small part of business financing. Total angel investments increased in 2020 over 2019, and the average angel deal size in 2020 was \$392,025, an increase of 4.8% from 2019. The amount of venture capital raised in 2020 was \$74.5 billion, marking the third consecutive year that at least \$55 billion was raised. The IPO market grew steadily during the last 5 years, ranging from 75 deals in 2016 to 165 deals in 2020. There were 53 more deals in 2020 than the prior year.

Source: NCVA, Angel, IPO

Table 3. Types of Financing Used by Minority Employer Startups (Percent of Firms)

	Hispanic	African-American	Asian	Non-Minority
Owner’s Savings	79.6	77.5	82.8	73.4
Credit Cards	20.9	25.0	16.0	16.0
Bank Loan	12.5	15.6	16.4	19.8
Owner’s Assets	10.0	10.4	11.2	9.8
Investments	6.2	8.7	7.7	7.7
Home Equity	6.1	5.7	7.7	6.2
None Used	9.3	9.9	7.7	11.9

Note: Recalculated to exclude “don’t know” responses. Source: ABS

18. What role do SBA loans play in the small business credit market?

SBA loans act as a shock absorber in a tight credit market. SBA partners with lenders to provide a partial guarantee for loans, which reduces lenders' risk and increases small business lending. For example, the SBA approved over 11.8 million PPP loans valued at roughly \$800 billion since the pandemic. \$278 billion of these loans were approved in 2021. From the 7(a) and 504 loan programs, SBA approved a total of 61,532 loans valued at \$44.8 billion in FY2021. For information on SBA loan programs, see <https://www.sba.gov/funding-programs>. For demographic information on SBA loan programs, visit <https://www.sba.gov/about-sba/sba-newsroom/weekly-lending-report>.

Source: SBA

Sources

ABS

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SBA

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Office of Advocacy, Change in Small Business Loans Outstanding During the COVID-19 Pandemic, <https://advocacy.sba.gov/2020/12/28/change-in-small-business-loans-outstanding-during-the-covid-19-pandemic/>

SBCS

Federal Reserve Banks, Small Business Credit Survey, <https://www.fedsmallbusiness.org/>

Angel

Center for Venture Research
University of New Hampshire, Peter T. Paul School of Business and Economics, <https://paulcollege.unh.edu/center-venture-research>

IPO

Jay R. Ritter, University of Florida, IPO data, <https://site.warrington.ufl.edu/ritter/ipo-data>

The Office of Advocacy and Small Business Data

The Office of Advocacy was created by Congress in 1976. Advocacy's mission includes conducting policy studies and economic research on issues of concern to small businesses. The office also publishes data on small firm characteristics and contributions.

Our website, <https://advocacy.sba.gov>, contains numerous databases and links to other sources. Have more questions? Email us at advocacy@sba.gov.

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