

1. What is the current condition for small businesses seeking capital?

Small business credit conditions remain tight following COVID-19. Borrowing conditions changed as rising interest rates increased costs for small businesses reliant on banks for their funding needs. Commercial bank lending standards became more strict in mid-2022 as the federal funds rate had 11 consecutive increases over 18 months (Figure 1). Credit remained available to businesses, but at higher costs which dampened financial activity. Surveys indicated a weak demand for small business loans (Figure 2).

The total small business loan balance amounted to over \$1.3 trillion in 2023—\$657 billion in business loans outstanding for loans of \$1 million or less, another \$653 billion worth of credit from finance companies, and the rest from other sources (Figure 3).

2. Why do small businesses seek financing?

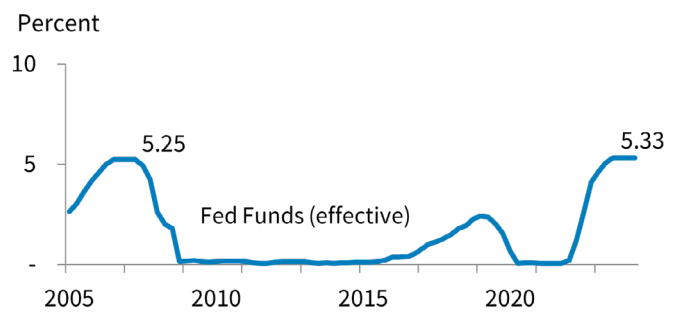
Small businesses typically borrow to start a business, purchase inventory, expand the business, and/or strengthen the firm's financial health. Firms choose different means of financing depending on the intended purpose.

3. What percentage of small businesses seek financing?

The financing needs of small businesses vary greatly. Over half of employer firms sought financing, while about 40 percent did not need financing. Lack of financing causes difficulties in expanding the business, keeping adequate inventory, and financing future sales.

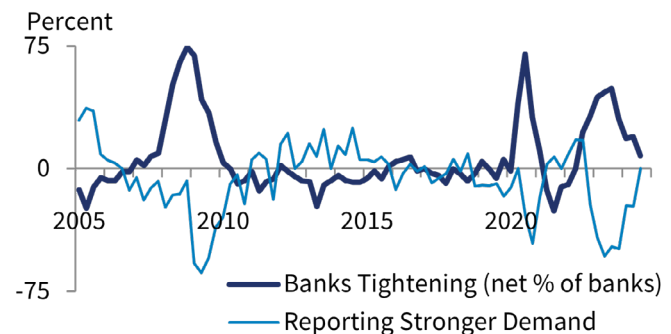
Source: [SBCS](#)

Figure 1. Interest Rates: Effective Federal Funds Rate



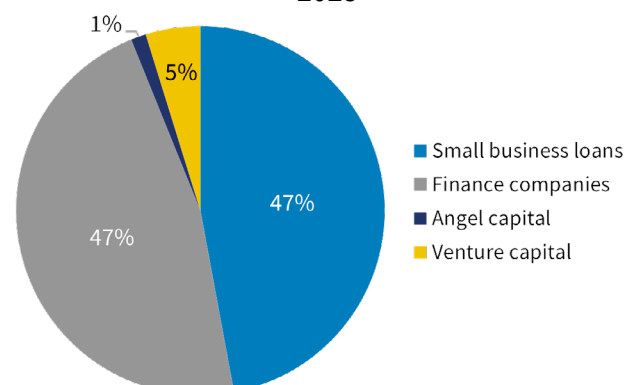
Source: FRED

Figure 2. Small Business Loan Supply and Demand



Source: SLOOS

Figure 3. Share of Small Business Lending by Source, 2023



Source: Federal Deposit Insurance Corporation (small business loans); Federal Reserve G.20 Survey (finance company lending); National Venture Capital Association, 2024 Yearbook (venture capital); Center for Venture Research, University of New Hampshire (angel capital).

4. Where does small business financing come from?

Financing for small businesses comes from various sources categorized either as external (banks, credit unions, finance companies, nonfinancial firms) or internal (family and friends, personal savings). Existing businesses often use retained earnings as a source of funding (Table 1).

5. How are most startups financed?

Startups often rely on the owners' resources for initial capital. According to the Small Business Credit Survey, 80 percent of employer businesses and 76 percent of nonemployers used personal savings for startup capital. Unconventional sources, such as credit cards, can also play a critical role in meeting a new firm's financial needs.

Source: [SBCS](#)

6. What is the dollar distribution of startup financing for small businesses?

Businesses can start with a range of capital. Employer firms tend to start with more capital than nonemployers. Nearly half of employers, 47%, used over \$25,000 of startup capital compared to only 17 percent of nonemployer firms (Table 2). A sizeable share did not use any startup financing.

Source: [SBCS](#)

7. How much capital do minority, veteran, and women-owned firms use to start an employer business?

While most employer and nonemployer firms start with less than \$25,000 in debt, minority-owned firms as a group were more likely to start with larger amounts of debt financing. Over 26 percent of minority firms used more than \$100,000 in debt to start compared with 24.3 percent of all businesses.

Veteran-owned firms were more likely to use smaller amounts of startup capital compared with other firms. Nearly 55 percent of veteran businesses used less than \$25,000 of startup capital and 9.4 percent used \$250,000 or more.

Women-owned employer firms use a wide range of capital to start. About 41 percent of women business owners tend to start with capital amounts of less than \$10,000. Women are less likely to use bank loans compared to their male counterparts.

Source: [2018 ABS](#)

Table 1. Types of Financing Used for Capital (Percent)

Sources of Financing	2023	2022
Credit Cards	34	35
Businesses/Retained Earnings	31	32
PPP	24	47
Bank Loan	23	17
No Financing	27	21
EIDL	18	25
Family & Friends	14	11

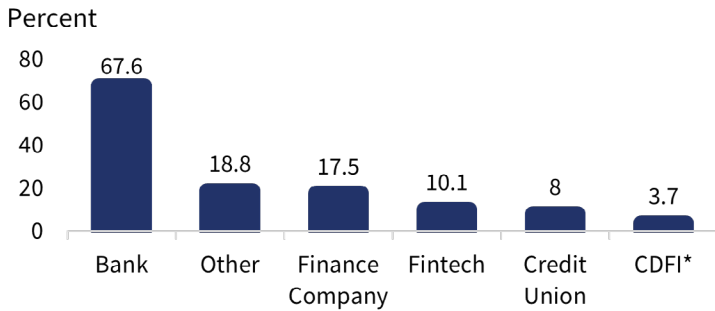
Source: [2023 NSBA Economic Report](#)

Table 2. Amount of Start-Up Debt by Small Businesses (Percent of Firms)

	Firms with Employees	Firms without Employees
Less than \$25,000	24	25
\$25,001 to \$50,000	9	7
\$50,001 to \$100,000	11	5
More than \$100,000	27	5
No debt	29	58

Source: [SBCS](#)

Figure 4. Lending Applied Sources of Credit



*Community Development Financial Institution.
Source: 2023 ABS

8. How important is bank financing to business owners?

According to Census Bureau data, over two-thirds of small businesses sought external financing from a bank compared to other finance sources. Other applied sources ranged from 3.7 to 18.8 percent (Figure 4).

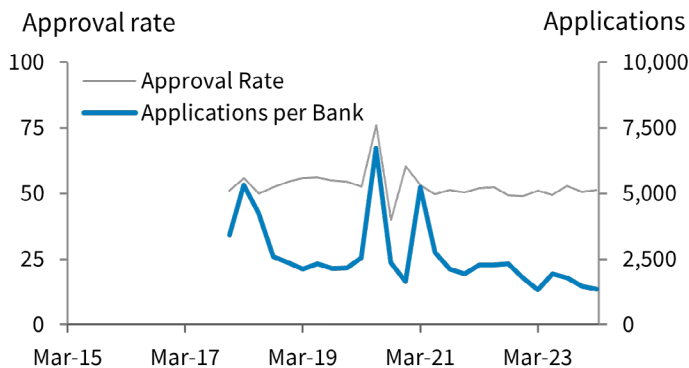
Source: [2023 ABS](#)

9. How successful are firms that apply for credit?

Existing firms with a proven record have a better chance of obtaining funds from bank lenders. Applications per bank and approval rates remain below pre-pandemic levels. About 51 percent of applications were approved at the end of 2023 compared with nearly 55 percent in December 2019 (Figure 5).

Source: [SBLs](#)

Figure 5. Small Business Lending Approvals



Source: SBLs

Full approval rates were highest at small banks, credit unions, and finance companies. Any type of approval, including partial approvals, was highest by finance companies while denials were highest by large banks, CDFI, and online lenders.

Source: [SBCS](#)

10. How much debt do small businesses carry?

In 2023, roughly 70 percent of small employer firms had an outstanding debt based on the Small Business Credit Survey. About 61 percent of small businesses held \$100k or less in debt, and 8 percent had a balance exceeding \$1 million. Also, 28 percent of employer firms did not use any debt. These debts were mostly in credit cards and loans.

Source: [SBCS](#)

11. How much debt do minority, veteran, and women-owned businesses carry?

Many business owners carry a balance of less than \$5,000 (ranging from 29.2 percent to 47.8 percent of owners depending on the group). Women-owned businesses had the most debt for the smallest loan size category (less than \$5,000). Over half of veteran-owned, nonminority-owned, and women-owned businesses carried balances less than \$25,000 (Table 3).

Hispanic, minority, and male-owned businesses carried roughly 15 percent of their debt in large amounts of \$250,000 or more (Figure 6).

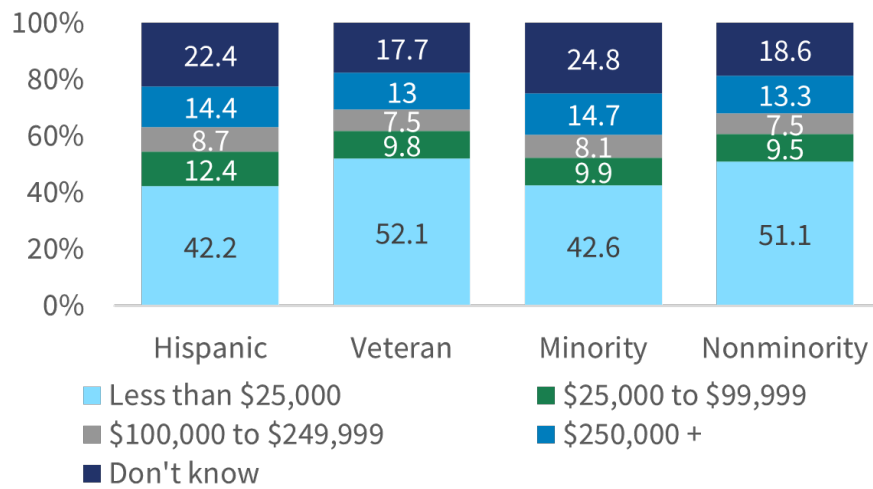
Source: [2023 ABS](#)

Table 3. Amount of Debt Outstanding by Business-Owners
(Percent of Debt)

	Total	Female	Male	Equally Male / Female
Less than \$5,000	43.4	47.8	42.0	42.9
\$5,000 to \$9,999	1.6	2.0	1.5	1.5
\$10,000 to \$24,999	4.2	4.9	4.1	4.2
\$25,000 to \$49,999	4.1	4.4	4.0	4.2
\$50,000 to \$99,999	5.4	5.3	5.4	6.1
\$100,000 to \$249,999	7.5	6.8	7.7	8.6
\$250,000 to \$499,999	4.1	3.4	4.3	4.5
\$500,000 to \$999,999	3.2	2.6	3.4	3.4
\$1,000,000 or more	6.6	4.8	6.9	6.0
Don't know	19.8	18.0	20.8	18.6

Source: [2023 ABS](#)

Figure 6. Business Owner Debt



Source: 2023 ABS

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

The default rate for small business loans remains relatively low. Small business default rate increased from 2.0 percent in December 2022 to 3.0 percent in December 2023, which is below the historical rate of 6.4 percent in October 2009.

Source: [PayNet](#)

13. How much do small businesses rely on credit cards?

Credit card financing is widely used by small businesses. A study by the National Small Business Association shows that 34 percent of small businesses use credit cards, most among other financing choices for existing firms (Table 1). Small business use of credit cards is likely to increase in a tight credit market, mostly for business expansion.

Source: [2023 NSBA](#)

14. What is the state of venture capital, angel, and initial public offering markets?

Angels are accredited investors who provide financial backing for small startups or entrepreneurs based on federal securities law. Venture and angel capital make up a relatively small part of business financing. Angel investments in 2023 totaled \$18.6 billion, a drop of \$3.7 billion from the prior year. Angel investors continued to be committed to early-stage investments.

The amount of venture capital raised in 2023 was \$67 billion, recording a sharp drop from the historical high of \$173 billion raised in 2022. Venture capitalists started the year with a preference for pre-seed funding but shifted to later-stage funding. Between 2019 and 2023, the number of IPOs peaked to levels seen two decades ago, with values reaching a historical high in 2021. By 2022, the IPO declined sharply, falling to aggregate dollar amounts last seen in 2003, and then recovered in 2023.

Source: [NCVA](#)

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

SBA partners with lenders to provide a partial guarantee on small business loans, which reduces lender's risk and increases small business lending. SBA loans act as a shock absorber in times when credit is tight by minimizing risk and offering additional capital access opportunities. For information on SBA loan programs, see www.sba.gov/funding-programs. For demographic information on SBA loan programs, visit data.sba.gov/dataset/office-of-capital-access.

Data Sources

ABS	Annual Business Survey 2023, Data Year 2022, US Census Bureau, Annual Business Survey 2018, Data Year 2017, U.S. Census Bureau https://www.census.gov/programs-surveys/abs/data/tables.html
FDIC	Federal Deposit Insurance Corporation, June 2023 Call Reports, https://www.fdic.gov/
FRED	Federal Reserve Economic Data, Effective Federal Funds Rate, https://fred.stlouisfed.org/
IPO	Jay R. Ritter, University of Florida, IPO data, https://site.warrington.ufl.edu/ritter/ipo-data
FRB	Federal Reserve Board, Finance Companies – G.20 https://www.federalreserve.gov/releases/g20/default.htm
PayNet	Small Business Default Index, https://sbinsights.paynetonline.com/loan-performance/
NSBA	National Small Business Association, 2023 Economic Report, https://www.nsbaadvocate.org/files/ugd/601769_8df54000a0f644e9afc0425bcdfa649f.pdf
NVCA	National Venture Capital Association, 2023 Yearbook https://nvca.org/wp-content/uploads/2023/03/NVCA-2023-Yearbook_FINALFINAL.pdf
SBCS	Small Business Credit Survey, Federal Reserve Banks, 2024 Report on Employer Firms https://www.fedsmallbusiness.org/reports/survey/2024/2024-report-on-employer-firms 2023 Report on Nonemployer Firms https://www.fedsmallbusiness.org/reports/survey/2023/2023-report-on-nonemployer-firms
SLBS	Small Business Lending Survey, First Quarter, 2024, Federal Reserve Bank of Kansas City https://www.kansascityfed.org/surveys/small-business-lending-survey/ https://www.kansascityfed.org/Research/documents/10232/SBLS-Q1_2024_Aggregate_Data.pdf
SLOOS	Senior Loan Officer Opinion Survey on Bank Lending Practices, Federal Reserve Board, https://www.federalreserve.gov/data/sloos.htm
Advocacy	Office of Advocacy, Small Business Finance FAQ https://advocacy.sba.gov/wp-content/uploads/2022/02/FinanceFAQ-Final-Feb2022.pdf
Angel	Center for Venture Research University of New Hampshire, Peter T. Paul School of Business and Economics https://paulcollege.unh.edu/center-venture-research

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409 Third Street, SW / MC 3114
Washington, DC 20416

Phone: 202.205.6533