Executive Summary

The Small Business Credit Survey (SBCS) collects information about business performance, financing needs and choices, and borrowing experiences of firms with 500 or fewer employees. Responses to the SBCS provide insight into the dynamics behind aggregate lending trends and about noteworthy segments of small businesses. The results are weighted to reflect the full population of small businesses. The SBCS is not a random sample; therefore, results should be analyzed with awareness of potential methodological biases. This report analyzes data from the 2020 SBCS for California.

Survey Response ¹

- National results are included in the charts for comparison purposes. The executive summary reflects small business trends in California.
- In California, there were 354 responses for the 2020 SBCS. Nationwide, there were 9,693 responses.
- Survey responses were collected from employer firms in September and October 2020.

Surveyed Firm Characteristics

- The majority of firms had revenues of $1M or less (65 percent) and a workforce of 1 to 4 employees (57 percent).
- Nearly half of all employer firms (49 percent) used contract workers.
- 95 percent of small businesses were located in urban areas.

Performance and Expectations

- 61 percent of firms reported that their current financial condition is poor or fair.
- 78 percent of firms experienced revenue declines in the previous 12 months and the majority (51 percent) had decreases in the number of employees.
- 39 percent of firms expected revenues to increase in the next 12 months and 39 percent expected decreases in revenues.
- 49 percent of firms expected no change in their employment in the next 12 months.

¹For a full discussion of the survey methodology, see Small Business Credit Survey 2021 Report, page 38.
Financing Sources, Challenges, and Debt
- 66 percent of firms experienced a financial challenge in paying operating expenses and 49 percent of firms experienced a financial challenge in paying rent.
- 78 percent of firms possess outstanding debt. Of those firms, 56 percent of them have debt amounts of more than $100K.

Applications for Financing
- 41 percent of firms applied for financing in the prior 12 months. Of those firms, 61 percent applied for funding of more than $100K.
- The majority of firms sought financing to meet operating expenses (57 percent) and 40 percent sought financing to refinance or pay down debt.

Pandemic-related Challenges and Emergency Funding
- 53 percent of firms reduced operations as a result of the COVID-19 pandemic, with 62 percent of firms attributing government mandates affecting business.
- Among businesses that applied for pandemic-related emergency assistance funding, 83 percent of firms applied to the Paycheck Protection Program and 64 percent of firms that applied received all funding requested.
- Of firms that received PPP funding, 75 percent expect full forgiveness.
- The majority of firms expect weak demand for products and services as a result of COVID-19 over the next 12 months (61 percent), with 32 percent of firms citing this as the most important challenge they will face.
Surveyed Firm Characteristics

49% of employer firms in California use contract workers compared to 43% nationwide.

Age of firm

- 0-5 years: 32% California, 37% US
- 6-10 years: 15% California, 16% US
- 11-15 years: 13% California, 14% US
- 16-20 years: 9% California, 9% US
- 21+ years: 30% California, 25% US
### Annual revenue

- **$100K or less**: 20% (California), 15% (US)
- **$100K-$1M**: 45% (California), 50% (US)
- **$1M-$10M**: 29% (California), 30% (US)
- **More than $10M**: 7% (California), 5% (US)
Number of employees

- 1-4 employees: 57% (California) vs. 55% (US)
- 5-9 employees: 17% (California) vs. 18% (US)
- 10-19 employees: 12% (California) vs. 13% (US)
- 20-49 employees: 9% (California) vs. 9% (US)
- 50-499 employees: 5% (California) vs. 5% (US)

Industry

- Goods, retail, and finance: 38%
- Services, except finance: 62%

Geographic location

- Urban: 95%
- Rural: 5%
Age of primary owner

- Under 36: 4% (California), 4% (US)
- 36-45: 17% (California), 16% (US)
- 46-55: 26% (California), 27% (US)
- 56-65: 35% (California), 33% (US)
- Over 65: 18% (California), 20% (US)

Gender of owner(s)

- Equally owned: 17%
- Women-owned: 21%
- Men-owned: 62%

Minority status of ownership

- Minority: 33%
- Non-minority: 67%
Performance and Expectations

Current financial condition

- Poor: 23% (California), 32% (US)
- Fair: 29% (California), 34% (US)
- Good: 22% (California), 25% (US)
- Very good: 13% (California), 11% (US)
- Excellent: 4% (California), 6% (US)
Revenue change, prior 12 months

- Decreased: 78% (California) 78% (US)
- No change: 9% (California) 9% (US)
- Increased: 13% (California) 13% (US)

Change in number of employees, prior 12 months

- Decreased: 51% (California) 46% (US)
- No change: 41% (California) 43% (US)
- Increased: 9% (California) 11% (US)
Expected revenue change, next 12 months

- Will decrease: 39% (California) 41% (US)
- Will not change: 23% (California) 19% (US)
- Will increase: 39% (California) 40% (US)

Expected employment change, next 12 months

- Will decrease: 19% (California) 16% (US)
- Will not change: 49% (California) 53% (US)
- Will increase: 32% (California) 31% (US)
Financing Sources, Challenges, and Debt

Financial challenges experienced in the last 12 months

<table>
<thead>
<tr>
<th>Challenge</th>
<th>California</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paying operating expenses</td>
<td>66%</td>
<td>65%</td>
</tr>
<tr>
<td>Paying rent</td>
<td>49%</td>
<td>43%</td>
</tr>
<tr>
<td>Making payments on debt</td>
<td>47%</td>
<td>44%</td>
</tr>
<tr>
<td>Accessing credit</td>
<td>39%</td>
<td>32%</td>
</tr>
<tr>
<td>Purchasing inventory to fulfill contracts</td>
<td>29%</td>
<td>32%</td>
</tr>
<tr>
<td>Other financial challenge</td>
<td>14%</td>
<td>9%</td>
</tr>
<tr>
<td>No challenges</td>
<td>16%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Respondents could select multiple options.
Actions taken by firms reporting financial challenges, prior 12 months

- **Used personal funds**: 66% (California), 62% (US)
- **Cut staff, hours, and/or downsize operations**: 62% (California), 55% (US)
- **Took out debt**: 57% (California), 50% (US)
- **Made a late payment or did not pay**: 46% (California), 38% (US)
- **Obtained funds through grants, crowdfunding, donations, etc.**: 40% (California), 52% (US)
- **Other action**: 11% (California), 9% (US)
- **No action**: 2% (California), 3% (US)

*Respondents could select multiple options.*
Use of financial services

- Large bank: 65% (California) 49% (US)
- Small bank: 30% (California) 45% (US)
- Business financial services company: 28% (California) 23% (US)
- Nonbank online/fintech lender: 18% (California) 11% (US)
- Nonbank finance company: 12% (California) 8% (US)
- Credit union: 9% (California) 12% (US)
- Other financial service provider: 5% (California) 6% (US)
- CDFI: 4% (California) 2% (US)
- Alternative financial source: 3% (California) 3% (US)
- Business does not use financial services: 6% (California) 7% (US)

Respondents could select multiple options.
Primary source of financial services if use more than one

- Large bank: 57% (California), 42% (US)
- Small bank: 38% (California), 21% (US)
- Nonbank online/fintech company: 9% (California), 4% (US)
- Credit union: 6% (California), 4% (US)
- Other: 3% (California), 3% (US)
- Business financial services company: 3% (California), 2% (US)
- CDFI: 2% (California), 1% (US)
- Alternative financial source: 1% (California), 1% (US)
- Nonbank finance company: 2% (California), 1% (US)
Credit risk

- Low credit risk: 69% (California), 70% (US)
- Medium credit risk: 24% (California), 24% (US)
- High credit risk: 8% (California), 6% (US)
78% of employer firms in California have outstanding debt.

Amount of debt outstanding
Among businesses with debt outstanding

- $25K or less: 12% California, 14% US
- $25,001-$50K: 11% California, 12% US
- $50,001-$100K: 17% California, 21% US
- $100,001-$250K: 24% California, 26% US
- $250,001-$1M: 22% California, 21% US
- More than $1M: 10% California, 10% US
Applications for Financing

41% of employer firms in California applied for financing in prior 12 months.

Reasons for seeking financing:

- Meet operating expenses: 57% (California), 58% (US)
- Refinance or pay down debt: 40% (California), 32% (US)
- Expand business/new opportunity: 36% (California), 38% (US)
- Replace capital assets or make repairs: 21% (California), 22% (US)
- Other reason: 4% (California), 3% (US)

Respondents could select multiple options.
Total amount of financing sought

- $25K or less: 16% (California) vs 15% (US)
- $25,001-$50K: 6% (California) vs 14% (US)
- $50,001-$100K: 17% (California) vs 19% (US)
- $100,001-$250K: 28% (California) vs 23% (US)
- $250,001-$1M: 21% (California) vs 19% (US)
- More than $1M: 12% (California) vs 10% (US)
Funding needs and outcomes

- Applied for non-emergency funding: obtained ALL of financing requested
  - California: 11%
  - US: 13%
- Applied for non-emergency funding: obtained SOME of financing requested
  - California: 16%
  - US: 14%
- Applied for non-emergency funding: obtained NONE of financing requested
  - California: 13%
  - US: 9%
- Did not apply for non-emergency funding
  - California: 60%
  - US: 64%

Share of firms that received all financing sought

- Not all received
  - California: 71%
  - US: 63%
- All received
  - California: 29%
  - US: 37%
2020 SMALL BUSINESS CREDIT SURVEY
CALIFORNIA STATE REPORT

Financing and credit products sought

- Home equity line of credit: 92% (California), 89% (US)
- Credit card: 30% (California), 21% (US)
- Equity investment: 9% (California), 6% (US)
- Merchant cash advance: 9% (California), 8% (US)
- Trade credit: 8% (California), 8% (US)
- Lease: 7% (California), 7% (US)
- Factoring (sale of accounts receivable): 4% (California), 3% (US)
- Other: 3% (California), 3% (US)

Respondents could select multiple options.
Application rate by type of loan or line of credit

- **SBA loan or line of credit**: 58% (California: 42%; US: 52%)
- **Business loan**: 52% (California: 45%; US: 35%)
- **Line of credit**: 35% (California: 35%)
- **Home equity line of credit**: 11% (California: 10%; US: 10%)
- **Auto or equipment loan**: 8% (California: 12%; US: 12%)
- **Personal loan**: 8% (California: 11%; US: 11%)
- **Other**: 4% (California: 5%; US: 5%)
- **Mortgage**: 3% (California: 6%; US: 6%)

Respondents could select multiple options.
Primary reason for not applying
Among businesses that did not apply for financing

- Had sufficient financing: 42% (California) 52% (US)
- Debt averse: 23% (California) 25% (US)
- Discouraged: 19% (California) 12% (US)
- Application process too difficult: 8% (California) 4% (US)
- Other: 5% (California) 2% (US)
- Credit cost high: 3% (California) 4% (US)
Pandemic-related Challenges and Emergency Funding

How has the COVID-19 Pandemic impacted your business?

<table>
<thead>
<tr>
<th>Category</th>
<th>California</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduced operations</td>
<td>53%</td>
<td>56%</td>
</tr>
<tr>
<td>Maintained operations, with modifications</td>
<td>48%</td>
<td>48%</td>
</tr>
<tr>
<td>Temporarily closed</td>
<td>30%</td>
<td>26%</td>
</tr>
<tr>
<td>Expanded operations</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>No significant impact</td>
<td>5%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Respondents could select multiple options.
Why did your business close or modify operations during the pandemic?

- Government mandate affecting my business: 62% California, 55% US
- Change in demand for products/services: 60% California, 58% US
- Needed to adapt to health/safety guidelines: 52% California, 52% US
- Government mandate affecting clients’ businesses: 37% California, 34% US
- Worker availability: 28% California, 27% US
- Supply chain disruption: 23% California, 24% US
- Personal/family obligations: 9% California, 10% US
- Other reason: 3% California, 4% US

Respondents could select multiple options.
If sales revenue is expected to decrease due to the COVID-19 pandemic, what do you expect will be the effect?

- Will decrease by >50%: 38% (California 32%, US 33%)
- Will decrease by 26%-50%: 28% (California 33%, US 33%)
- Will decrease by 10%-25%: 25% (California 25%, US 25%)
- Will decrease by <10%: 7% (California 6%, US 6%)
- Unsure: 3% (California 4%, US 4%)
Effect of COVID-19 on availability of goods and services in supply chain

- Business does not rely on suppliers: 15% (California), 15% (US)
- Large decrease: 20% (California), 20% (US)
- Moderate decrease: 43% (California), 41% (US)
- Little or no effect: 20% (California), 20% (US)
- Moderate increase: 2% (California), 2% (US)
- Large increase: 2% (California), 1% (US)
## Applications for emergency assistance funds

Among businesses that applied for pandemic-related emergency assistance funding

<table>
<thead>
<tr>
<th>Assistance Type</th>
<th>California</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paycheck Protection Program</td>
<td>83%</td>
<td>82%</td>
</tr>
<tr>
<td>EIDL loan</td>
<td>58%</td>
<td>47%</td>
</tr>
<tr>
<td>EIDL grant</td>
<td>36%</td>
<td>35%</td>
</tr>
<tr>
<td>Grant from state/local government fund</td>
<td>25%</td>
<td>28%</td>
</tr>
<tr>
<td>Grant from nonprofit or foundation</td>
<td>15%</td>
<td>8%</td>
</tr>
<tr>
<td>Loan from state/local government fund</td>
<td>7%</td>
<td>8%</td>
</tr>
<tr>
<td>Main Street Lending Program loan</td>
<td>6%</td>
<td>3%</td>
</tr>
<tr>
<td>Other type of funding</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>Did not complete emergency assistance funding application</td>
<td>9%</td>
<td>9%</td>
</tr>
</tbody>
</table>

*Respondents could select multiple options.*
Reasons businesses did not apply for a PPP loan

Among businesses that did not apply for PPP

- Would not qualify for the loan/forgiveness: 37% California, 23% US
- Confused by the program/process: 22% California, 23% US
- Could not find a lender to accept the application: 13% California, 19% US
- Did not need funding: 18% California, 18% US
- Had already laid off employees: 17% California, 10% US
- Missed deadline: 15% California, 9% US
- Unaware of program: 12% California, 9% US
- Sought other funding instead: 13% California, 8% US
- Uninterested in government aid: 8% California, 8% US
- Other reason: 3% California, 4% US

Respondents could select multiple options.
Survey question had fewer than 100 responses for the state of California.
PPP funding received

- None: 4% (California), 7% (US)
- Some (1%-50%): 8% (California), 14% (US)
- Most (51%-99%): 11% (California), 15% (US)
- All: 64% (California), 77% (US)

Expectations for PPP forgiveness
Among business that received PPP

- Full forgiveness: 75% (California), 80% (US)
- Partial forgiveness: 10% (California), 14% (US)
- Does not expect forgiveness: 1% (California), 2% (US)
- Unsure: 9% (California), 10% (US)
Credit sources applied to
Among businesses that applied for PPP

- Large bank: 42% (California), 47% (US)
- Small bank: 37% (California), 43% (US)
- Online lender: 20% (California), 35% (US)
- Finance company: 16% (California), 15% (US)
- Other: 9% (California), 10% (US)
- Credit union: 7% (California), 9% (US)
- CDFI: 4% (California), 3% (US)

Respondents could select multiple options.
Over the next 12 months, what challenges do you expect your business will face as a result of COVID-19?

<table>
<thead>
<tr>
<th>Challenge</th>
<th>California</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weak demand for products/services</td>
<td>61%</td>
<td>59%</td>
</tr>
<tr>
<td>Government-mandated restrictions/closures</td>
<td>59%</td>
<td>53%</td>
</tr>
<tr>
<td>Limited credit availability</td>
<td>42%</td>
<td>32%</td>
</tr>
<tr>
<td>Supply chain disruptions</td>
<td>32%</td>
<td>37%</td>
</tr>
<tr>
<td>Labor shortages</td>
<td>25%</td>
<td>26%</td>
</tr>
<tr>
<td>Personal/family obligations</td>
<td>23%</td>
<td>22%</td>
</tr>
<tr>
<td>Other</td>
<td>13%</td>
<td>19%</td>
</tr>
<tr>
<td>No significant challenges</td>
<td>2%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Respondents could select multiple options.
Among expected challenges, which is the most important challenge you expect your business will face?

- Government-mandated restrictions/closures: 33% California, 26% US
- Demand for products/services: 32% California, 37% US
- Limited credit availability: 15% California, 13% US
- Supply chain disruptions: 7% California, 9% US
- Other: 5% California, 5% US
- Personal/family obligations: 4% California, 5% US
- Labor shortages: 4% California, 7% US
Do you plan to apply for additional government-provided emergency assistance funding if/when it is made available?

<table>
<thead>
<tr>
<th>Response</th>
<th>California</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>63%</td>
<td>64%</td>
</tr>
<tr>
<td>Unsure</td>
<td>23%</td>
<td>20%</td>
</tr>
</tbody>
</table>

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Disclaimer: The views expressed here are those of the author and not necessarily those of the Federal Reserve Bank of San Francisco or the Federal Reserve System.