Executive Summary

The Small Business Credit Survey (SBCS) is an annual survey that collects information about the business performance, financing needs and options, 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.

This report analyzes data from the 2021 SBCS for the State of California.

The findings in this report reflect data for employer firms only (employer firms are firms with at least one employee in addition to the owner(s)). 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.

Survey Response

+ Results summarized below reflect small business trends in California. National results are included in the charts for comparison purposes.
+ In California, there were 744 responses for the 2021 SBCS. Nationwide, there were 10,914 responses.
+ The 2021 SBCS was fielded September 8 through November 19, 2021 and is the second SBCS conducted during the COVID-19 pandemic.

Surveyed Firm Demographics

+ The majority of California firms surveyed have 1-4 employees (57%) and had 2020 revenues of $500,000 or less (64%).
+ Firms in California tend to be either well-established, with 37% in business for over 21 years, or newer, with 25% in business for five years or less.
+ 34% of California firms are owned by people of color (compared with 17% nationally).

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1 For a full discussion of the survey methodology, see Small Business Credit Survey 2022 Report, page 27.
Firm Performance, Challenges, and Expectations

+ 70% of California firms reported their current financial condition as poor or fair at the time of the 2021 survey, compared with 60% of firms at the 2020 survey.
+ 73% of California firms have experienced decreases in revenue since 2019, but the majority (60%) expect revenues to increase in the next 12 months.
+ 86% of firms reported that the COVID-19 pandemic is currently having a negative effect on their business.

Pandemic-related Financial Assistance

+ 87% of California firms surveyed sought some type of pandemic-related financial assistance in 2021, compared with 77% of firms nationally.
+ Of firms that sought pandemic-related financial assistance in 2021, California firms most often turned to the federal Economic Injury Disaster Loan (EIDL) and the federal Paycheck Protection Program (PPP).
+ 87% of firms that received PPP loans in 2021 expect full forgiveness, and 81% reported that they received full forgiveness on their PPP loans in 2020.

Financing Need and Credit Products

+ 79% of firms had some level of debt outstanding at the time of the survey.
+ Of firms that applied for financing in the past 12 months, 80% applied for a loan or line of credit.
+ California firms that applied for financing most often did so to meet operating expenses (63%) and/or to expand their business (41%).
Surveyed Firm Demographics

Figure 1: Number of firm employees

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>California</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-4 employees</td>
<td>57%</td>
<td>55%</td>
</tr>
<tr>
<td>5-9 employees</td>
<td>17%</td>
<td>18%</td>
</tr>
<tr>
<td>10-19 employees</td>
<td>12%</td>
<td>13%</td>
</tr>
<tr>
<td>20-49 employees</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td>50-499 employees</td>
<td>5%</td>
<td>5%</td>
</tr>
</tbody>
</table>

36% of California firms use contract workers compared to 39% of firms nationally.
Figure 2: Age of firm

- 0-2 years: California 12%, US 19%
- 3-5 years: California 13%, US 25%
- 6-10 years: California 16%, US 15%
- 11-15 years: California 13%, US 13%
- 16-20 years: California 9%, US 9%
- 21+ years: California 25%, US 31%
Figure 3: Industry

- Professional services and real estate: California 21%, US 20%
- Non-manufacturing goods production & associated services: California 17%, US 18%
- Leisure and hospitality: California 11%, US 15%
- Business support and consumer services: California 14%, US 15%
- Healthcare and education: California 12%, US 13%
- Manufacturing: California 12%, US 4%
- Retail: California 8%, US 13%
- Finance and insurance: California 0%, US 6%
Figure 4: Total firm revenues in 2020

- $0 - 100,000: 30% (California), 22% (US)
- $100,001 - $500,000: 34% (California), 36% (US)
- $500,001 - $1 million: 13% (California), 16% (US)
- More than $1 million: 24% (California), 26% (US)

Figure 5: Credit risk of firm

- Low: 66% (California), 69% (US)
- Medium: 28% (California), 25% (US)
- High: 6% (California), 6% (US)
In the national SBCS sample, 84% of employer firms are headquartered in urban areas; 16% are in rural areas.
Figure 8: Gender of owner(s)

- Men-owned: 61%
- Women-owned: 22%
- Equally owned: 17%

Figure 9: Immigrant ownership

- Owned by immigrant: 25%
- Not owned by immigrant: 75%
Figure 10: LGBTQ ownership

- LGBTQ-owned: 7%
- Not LGBTQ-owned: 93%

Figure 11: Veteran ownership

- Veteran-owned: 6%
- Not veteran-owned: 94%
Firm Performance, Challenges, and Expectations

**Figure 12: Financial condition, at time of survey**

<table>
<thead>
<tr>
<th>Condition</th>
<th>California</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor</td>
<td>29%</td>
<td>21%</td>
</tr>
<tr>
<td>Fair</td>
<td>41%</td>
<td>38%</td>
</tr>
<tr>
<td>Good</td>
<td>21%</td>
<td>25%</td>
</tr>
<tr>
<td>Very good</td>
<td>6%</td>
<td>11%</td>
</tr>
<tr>
<td>Excellent</td>
<td>3%</td>
<td>5%</td>
</tr>
</tbody>
</table>

**Figure 13: Revenue change, since 2019**

<table>
<thead>
<tr>
<th>Change</th>
<th>California</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decreased</td>
<td>73%</td>
<td>63%</td>
</tr>
<tr>
<td>No change</td>
<td>7%</td>
<td>10%</td>
</tr>
<tr>
<td>Increased</td>
<td>20%</td>
<td>27%</td>
</tr>
</tbody>
</table>
Figure 14: Revenue change, past 12 months

- Decreased: 57% (California), 48% (US)
- No change: 13% (California), 14% (US)
- Increased: 30% (California), 38% (US)

Figure 15: Revenue expectations, next 12 months

- Will decrease: 17% (California), 17% (US)
- Will not change: 23% (California), 25% (US)
- Will increase: 60% (California), 59% (US)
Figure 16: Employment change, since 2019

- Decreased: California 43%, US 49%
- No change: California 37%, US 36%
- Increased: California 15%, US 20%

Figure 17: Employment change, past 12 months

- Decreased: California 33%, US 38%
- No change: California 38%, US 43%
- Increased: California 24%, US 24%

■ California  ■ US
**Figure 18: Employment expectations, next 12 months**

<table>
<thead>
<tr>
<th>Will decrease</th>
<th>California</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>13%</td>
<td>10%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Will not change</th>
<th>California</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>46%</td>
<td>49%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Will increase</th>
<th>California</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>41%</td>
<td>41%</td>
<td></td>
</tr>
</tbody>
</table>

**Figure 19: Effects of the COVID-19 pandemic on firms, at time of survey**

<table>
<thead>
<tr>
<th>Effect</th>
<th>California</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large negative effect</td>
<td>38%</td>
<td>33%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Effect</th>
<th>California</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moderate negative effect</td>
<td>48%</td>
<td>44%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Effect</th>
<th>California</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Little to no effect</td>
<td>16%</td>
<td>9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Effect</th>
<th>California</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moderate positive effect</td>
<td>6%</td>
<td>4%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Effect</th>
<th>California</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large positive effect</td>
<td>2%</td>
<td>1%</td>
</tr>
</tbody>
</table>
Figure 20: Operational challenges, past 12 months

- Reaching customers/growing sales: 60% in California, 53% in US
- Supply-chain issues: 59% in California, 59% in US
- Hiring or retaining qualified staff: 60% in California, 60% in US
- Complying with government regulations: 40% in California, 50% in US
- Ensuring health/safety of customers or employees: 44% in California, 38% in US
- Utilizing technology: 29% in California, 26% in US
- Other: 8% in California, 8% in US
- Did not experience any operational challenges: 4% in California, 5% in US

Note: Firms selected all challenges that applied.

Figure 21: Natural disaster-related losses

- No, firm did not sustain losses: 86% in California, 88% in US
- Yes, firm did sustain losses: 14% in California, 12% in US
Figure 22: Financial challenges, past 12 months

- Paying operating expenses: 61% in California, 70% in US
- Uneven cash flow: 60% in California, 64% in US
- Weak sales: 59% in California, 64% in US
- Credit availability: 28% in California, 32% in US
- Other: 14% in California, 16% in US
- None: 15% in California, 9% in US

Note: Firms selected all challenges that applied.
Figure 23: Actions firm took to deal with financial challenges, past 12 months

- Obtained funds that do not have to be repaid: 74% (California) - 71% (US)
- Used personal funds: 61% (California) - 61% (US)
- Obtained funds that must be repaid: 59% (California) - 52% (US)
- Used cash reserves: 58% (California) - 56% (US)
- Cut staff, hours, and/or downsized operations: 45% (California) - 52% (US)
- Made a late payment or did not pay: 33% (California) - 28% (US)
- Other: 11% (California) - 8% (US)
- No action: 1% (California) - 2% (US)

Note: Firms selected all actions that applied.
Pandemic-Related Financial Assistance

Figure 24: Applications for pandemic-related financial assistance

- Economic Injury Disaster Loan (EIDL): 48% (California), 63% (US)
- Paycheck Protection Program (PPP): 51% (California), 47% (US)
- Grant from state/local government fund: 33% (California), 48% (US)
- EIDL advance: 31% (California), 36% (US)
- Grant from a nonprofit or foundation: 10% (California), 8% (US)
- Restaurant Revitalization Fund (RRF) Grants: 8% (California), 5% (US)
- Loan from state/local government fund: 7% (California), 5% (US)
- Shuttered Venue Operators (SVO) grants: 1% (California), 1% (US)
- Other: 3% (California), 4% (US)
- Did not seek emergency assistance: 13% (California), 23% (US)

Note: Firms selected all sources of assistance that applied.
Figure 25: Pandemic-related financial assistance received as share of amount sought (excluding PPP)
Figure 26: Where firms applied for PPP

- Large bank: 45% (California), 39% (US)
- Small bank: 31% (California), 44% (US)
- Online lender: 21% (California), 11% (US)
- CDFI: 6% (California), 2% (US)
- Finance company: 5% (California), 4% (US)
- Credit union: 2% (California), 5% (US)
- Other: 5% (California), 3% (US)

Note: Firms selected all that applied.
Figure 27: PPP funding received as share of amount sought

- All (100%): California - 63%, US - 67%
- Most (51%-99%): California - 18%, US - 15%
- Some (1%-50%): California - 9%, US - 9%
- None (0%): California - 11%, US - 10%

Figure 28: Loan forgiveness received on 2020 PPP loans

- Full: California - 81%, US - 87%
- Partial: California - 4%, US - 3%
- Pending: California - 8%, US - 6%
- None: California - 2%, US - 1%
- Unsure: California - 5%, US - 2%
Figure 29: Expect loan forgiveness on 2021 PPP loan?

<table>
<thead>
<tr>
<th>Option</th>
<th>California</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes, full forgiveness</td>
<td>87%</td>
<td>90%</td>
</tr>
<tr>
<td>Yes, partial forgiveness</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>Unsure</td>
<td>10%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Figure 30: Why firm did not seek assistance in the past 12 months

<table>
<thead>
<tr>
<th>Reason</th>
<th>California</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Did not think business would qualify</td>
<td>55%</td>
<td>44%</td>
</tr>
<tr>
<td>Business did not need funding</td>
<td>31%</td>
<td>36%</td>
</tr>
<tr>
<td>Programs too confusing or time-consuming</td>
<td>21%</td>
<td>19%</td>
</tr>
<tr>
<td>Could not find program to fit my business needs</td>
<td>13%</td>
<td>18%</td>
</tr>
<tr>
<td>Other</td>
<td>7%</td>
<td>13%</td>
</tr>
</tbody>
</table>

Note: California question sample size was less than 100.
Financing needs and credit products

Figure 31: Amount of debt outstanding, at time of survey

<table>
<thead>
<tr>
<th>Amount of Debt Outstanding</th>
<th>California</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Outstanding Debt</td>
<td>21%</td>
<td>26%</td>
</tr>
<tr>
<td>Less than $50,000</td>
<td>23%</td>
<td>22%</td>
</tr>
<tr>
<td>$50,001-$100,000</td>
<td>13%</td>
<td>12%</td>
</tr>
<tr>
<td>$100,001-$250,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>More than $250,000</td>
<td>21%</td>
<td>23%</td>
</tr>
</tbody>
</table>

Figure 32: Share of firms that applied for financing, past 12 months (excludes applications for pandemic-related assistance)

<table>
<thead>
<tr>
<th>Application Status</th>
<th>California</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Did not apply for financing</td>
<td>60%</td>
<td>66%</td>
</tr>
<tr>
<td>Applied for financing</td>
<td>40%</td>
<td>34%</td>
</tr>
</tbody>
</table>
Figure 33: Primary reason firm applied for financing

- Meet operating expenses: 63% (California), 62% (US)
- Expand business, pursue new opportunity, or acquire business assets: 46% (California), 41% (US)
- Refinance or pay down debt: 36% (California), 30% (US)
- Replace capital assets or make repairs: 33% (California), 29% (US)
- Other: 2% (California), 3% (US)

Note: Firms selected all reasons that applied.
Figure 34: Types of financing firm applied for

- Loan or line of credit: 80% California, 76% US
- Credit card: 32% California, 29% US
- Merchant cash advance: 12% California, 8% US
- Home equity line of credit: 10% California, 5% US
- Lease: 10% California, 8% US
- Trade credit: 8% California, 9% US
- Equity investment: 6% California, 6% US
- Factoring: 6% California, 4% US
- Other: 1% California, 2% US

Note: Firms selected all types of financing that applied.
Figure 35: Application rate by type of loan or line of credit

- SBA loan: 42% (California), 49% (US)
- Business loan: 46% (California), 43% (US)
- Line of credit: 22% (California), 31% (US)
- Personal loan: 13% (California), 21% (US)
- Autoequip: 16% (California), 14% (US)
- Home equity line of credit: 8% (California), 13% (US)
- Merchant cash advance: 7% (California), 11% (US)
- Mortgage: 6% (California), 7% (US)
- Other product: 4% (California), 7% (US)
Figure 36: Loan or line of credit source

- Large bank: California 48%, US 43%
- Small bank: California 33%, US 36%
- Online lender: California 20%, US 23%
- Finance company: California 20%, US 17%
- Credit union: California 8%, US 8%
- CDFI: California 3%, US 8%
- Other: California 17%, US 16%
Figure 37: Total financing firm applied for

- $25,000 or less: California 13%, US 15%
- $25,001-$50,000: California 17%, US 20%
- $50,001-$100,000: California 14%, US 19%
- $100,001-$250,000: California 21%, US 26%
- $250,001-$1M: California 20%, US 19%
- More than $1M: California 8%, US 9%

Figure 38: Total financing obtained

- None: California 32%, US 35%
- Some (1%-50%): California 20%, US 28%
- Most (51%-99%): California 15%, US 14%
- All: California 25%, US 31%
Figure 39: Reasons business did not obtain all financing

- Lender requirements too strict: 44% (California) 40% (US)
- Insufficient collateral: 30% (California) 26% (US)
- Lenders do not approve financing for businesses like mine: 26% (California) 24% (US)
- Weak sales: 27% (California) 23% (US)
- Low credit score: 25% (California) 23% (US)
- Too much debt already: 22% (California) 20% (US)
- Unsure: 13% (California) 13% (US)
- Missing documentation: 10% (California) 7% (US)
- Other: 10% (California) 10% (US)

Note: Firms selected all reasons that applied.
Question sample size for California firms was less than 100.
Figure 40: Reason firm didn't apply for financing

- Had sufficient financing: 37% (California) vs. 46% (US)
- Debt averse: 32% (California) vs. 26% (US)
- Discouraged (did not think application would be approved): 15% (California) vs. 14% (US)
- Application process too difficult: 7% (California) vs. 6% (US)
- Credit cost high: 5% (California) vs. 4% (US)
- Other: 3% (California) vs. 3% (US)
Figure 41: If discouraged, likely reasons firm would not be approved?

- Weak business financials: 74% (California 56%)  
- Lender requirements too strict: 50% (California 32%)  
- Lenders do not approve financing for businesses like mine: 28% (California 24%)  
- Was denied financing previously: 23% (California 22%)  
- Unsure: 8% (California 8%)  
- Missing documentation: 6% (California 4%)  
- Other: 3% (California 14%)  

Note: Firms selected all reasons that applied.  
Question sample size for California firms was less than 100.
Figure 42: Use of financial services providers

- Large bank: California 56%, US 69%
- Small bank: California 32%, US 47%
- Business financial services company: California 26%, US 27%
- Online lender: California 11%, US 10%
- Finance company: California 10%, US 8%
- Credit union: California 9%, US 13%
- Alternative financial source: California 5%, US 3%
- CDFI: California 3%, US 2%
- Other: California 4%, US 4%
- Business does not use financial services: California 3%, US 2%

Note: Firms selected all financial service providers used.
Figure 43: Primary financial services provider if use more than one

- Large bank: 63% (California), 48% (US)
- Small bank: 24% (California), 38% (US)
- Credit union: 4% (California), 4% (US)
- Financial services company: 3% (California), 4% (US)
- Fintech lender: 2% (California), 2% (US)
- Finance company: 1% (California), 1% (US)
- Alternative financial source: 1% (California), 1% (US)
- CDFI: 1% (California), 0% (US)
- Other: 1% (California), 1% (US)
Figure 44: Why firm doesn't use a bank

- Costs/fees too high (49% California, 45% US)
- Would not meet bank requirements (24% California, 35% US)
- Banks don't work with businesses like mine (21% California, 27% US)
- Banks do not offer needed products/services (19% California, 17% US)
- Trust (8% California, 10% US)
- Prefer credit union (7% California, 13% US)
- Bank locations are inconvenient (5% California, 7% US)
- Avoiding a bank offers more privacy (4% California, 7% US)
- Other (17% California, 25% US)

Note: Firms selected all reasons that applied.
Question sample size for California firms was less than 100.

Author
Sarah Simms

Acknowledgement
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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.