



Small Business Lending Survey

Small Business Loan Demand Increases

In the first quarter, new small business lending¹ increased when compared to the same period in 2025, driven by an increase in new lines of credit at large and mid-sized banks². Outstanding loan balances increased slightly when compared to the same period in 2025. Interest rates offered at rural banks³ for new term loans and new lines of credit continued to decrease, while most interest rates offered at urban banks increased.

With over \$72 billion in small business loans reported, the 144 survey respondents indicated stronger loan demand across all bank sizes for the first time since the first quarter of 2022. The long-term trend of tightening credit standards and declining credit quality continued, while application approval rates increased for both small and large banks. Over the next 12 months, respondents, on net, indicated the most likely factors to have an impact on loan demand are inflation, trade policy, and cost of labor.

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¹ Small business lending refers to commercial and industrial lending to organizations generally defined as having less than \$5 million in gross annual revenue, unless otherwise noted.

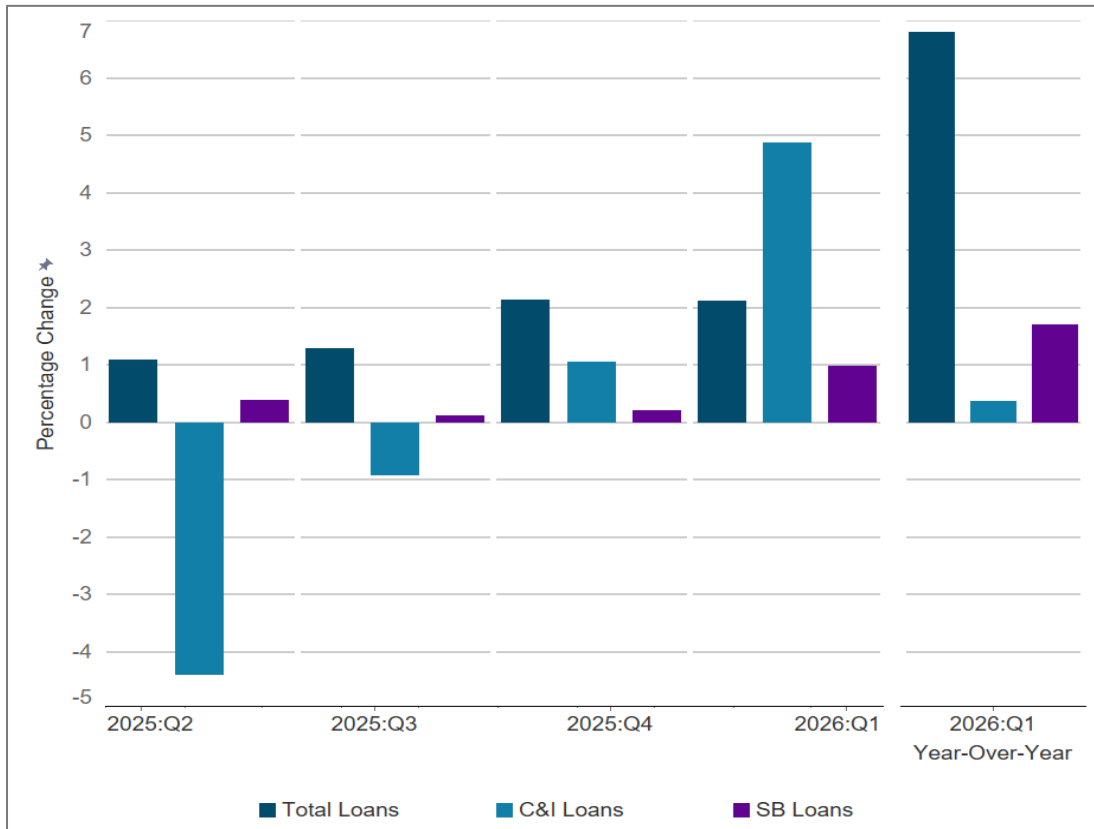
² Small banks have total assets of \$1 billion or less, midsized banks have total assets between \$1 billion and \$10 billion, and large banks have total assets greater than \$10 billion.

³ Urban and rural classification is determined exclusively by the bank's head office location and [US Census Population](#) data.



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Chart 1: Outstanding Small Business (SB) Loans Increase Slightly



Note: Items are calculated using a subset of 96 respondents that completed the FR 2028D for the last five quarters surveyed. As of 2024:Q4, the instructions were updated for Call Report, Schedule RC-C Part I, item 4. Commercial and Industrial Loans.

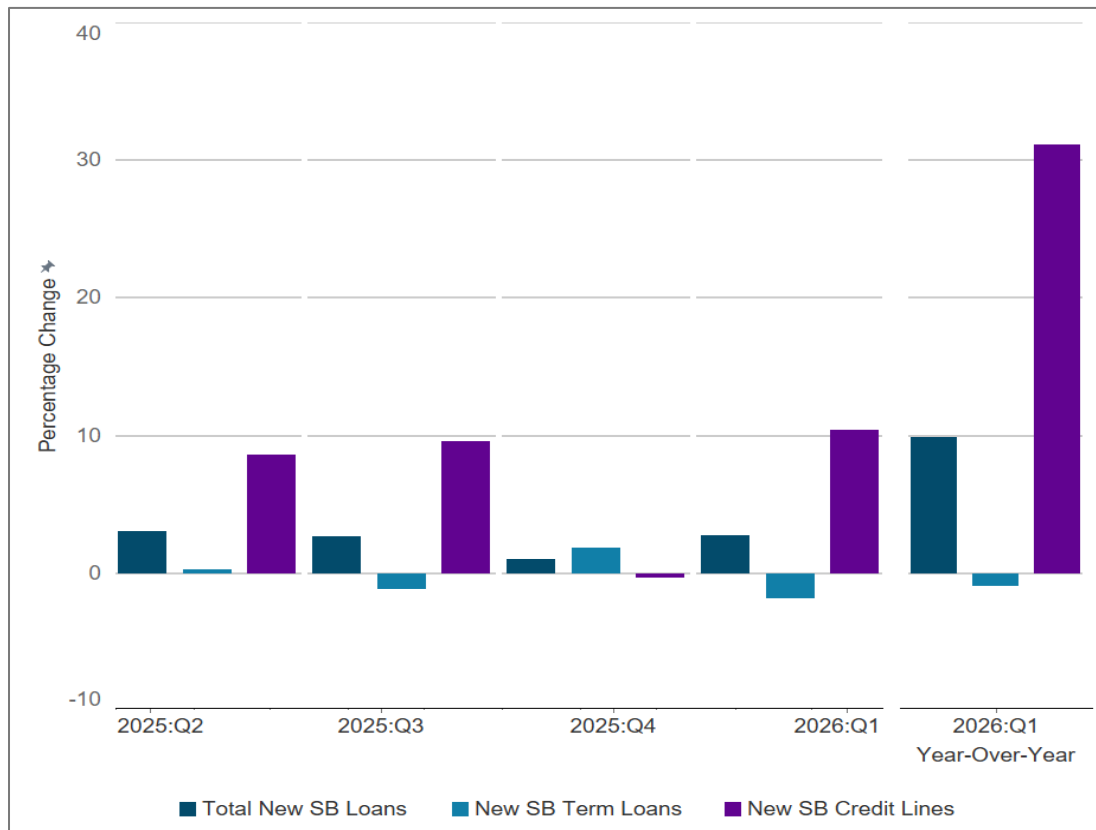
Sources: Call Report, Schedule RC-C Part I, items 4. Commercial and Industrial Loans and 12. Total Loans and Leases Held for Investment and Held for Sale, and FR 2028D, items 5.b and 6.c.

When compared to the first quarter of 2025, outstanding small business loans increased by 1.7% and total loans increased by 6.8%. The year-over-year increase in total loans was consistent across all bank sizes, while the increase in small business loans was primarily due to increases reported by mid-sized banks. Quarter-over-quarter, small business loans increased 1%, C&I loans increased by 4.9%, and total loans increased by 2.1%.



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Chart 2: New Small Business Credit Lines Increase Significantly Year-Over-Year



Note: Items are calculated using a subset of 96 respondents that completed the FR 2028D for the last five quarters surveyed. All loan types referenced in Chart 2 refer to small business lending.

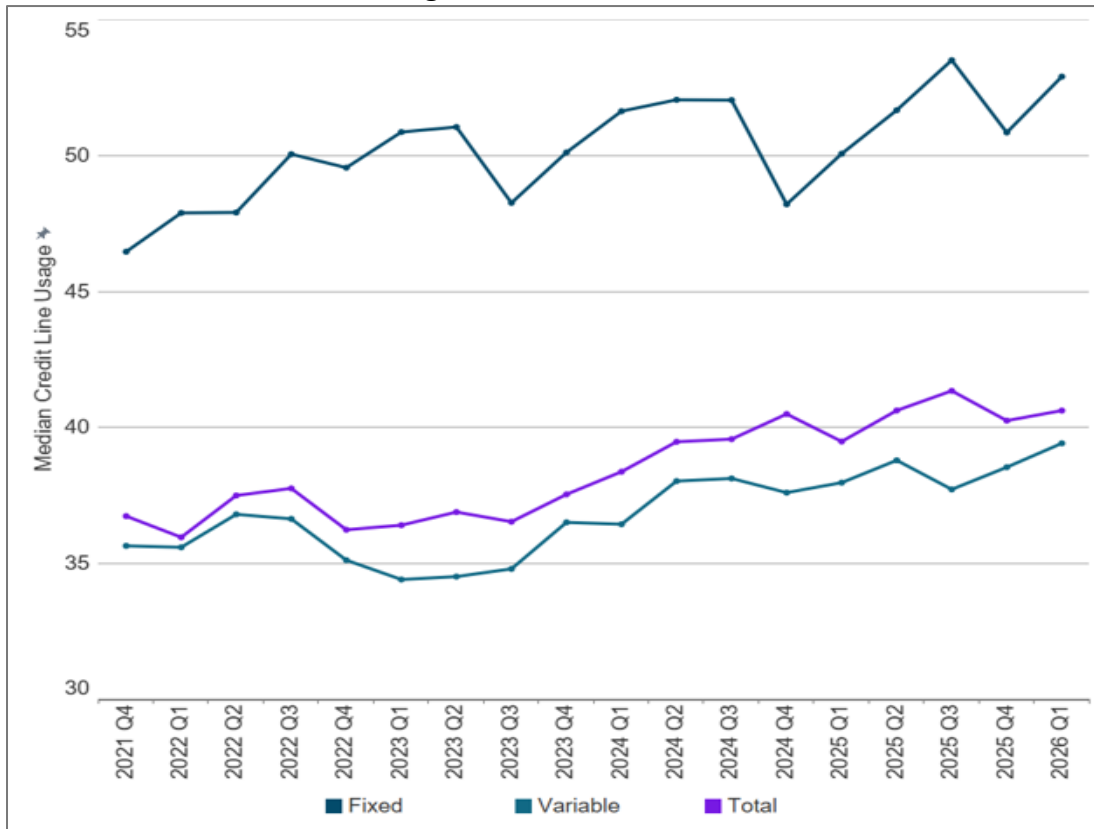
Source: FR 2028D, items 7.b and 8.c.

When compared to the first quarter of 2025, total new loan balances increased by 9.9%, with a 0.9% decrease in new term loans and a 31.1% increase in new credit lines. The year-over-year increase in new lines of credit was driven by large and midsized banks, while small banks reported a decrease. Quarter-over-quarter, total new loan balances increased by 2.8%, with a 1.8% decrease in new term loans and a 10.5% increase in new credit lines.



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Chart 3: Median Credit Line Usage Increases



Note: Usage refers to the proportion of the outstanding balance relative to the total committed amount (i.e. credit used vs credit available).

Source: FR 2028D, items 6.b and 6.c.

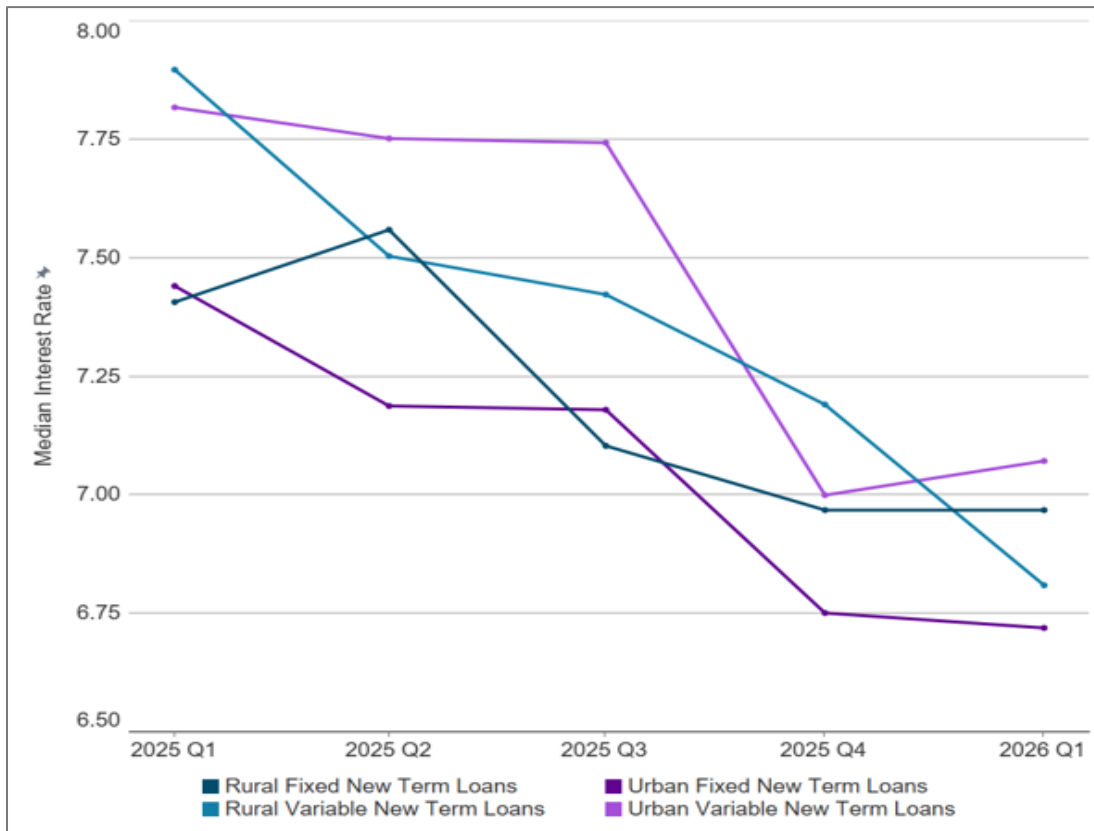
Quarter-over-quarter, median credit line usage increased slightly from 40.3% to 40.7%. Median usage of fixed rate lines of credit increased to 52.9%, while usage of variable rate lines of credit increased to 39.4%.

Variable rate lines continue to constitute a larger portion of credit lines issued by banks, with respondents indicating they made up about 91% of total credit line usage.



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Chart 4: Median Interest Rates Decrease for Rural New Term Loans



Note: Items are calculated using a subset of 96 respondents that completed the FR 2028D for the last five quarters surveyed. Urban banks make up about 89% of the subset of respondents.

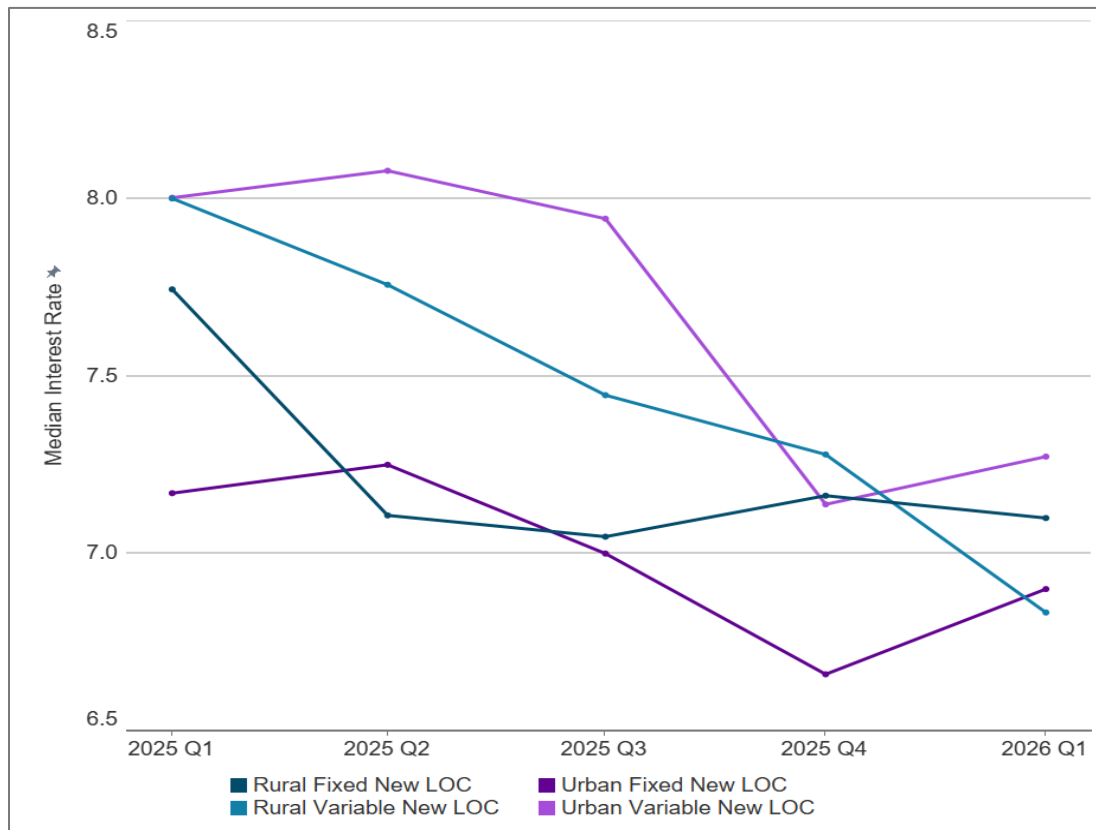
Source: FR 2028D, item 7.c.

Quarter-over-quarter, variable rates on new term loans offered at rural banks decreased by 38-basis points, while all other rates were relatively stable. Variable rates offered at urban banks were the highest at 7.1% and fixed rates offered at urban banks remained the lowest at 6.7%. The largest year-over-year decrease was for variable rates offered at rural banks, declining by 109-basis points.



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Chart 5: Median Interest Rates on Rural New Lines of Credit (LOC) Decrease



Note: Items are calculated using a subset of 96 respondents that completed the FR 2028D for the last five quarters surveyed. Urban banks make up about 89% of the subset of respondents.

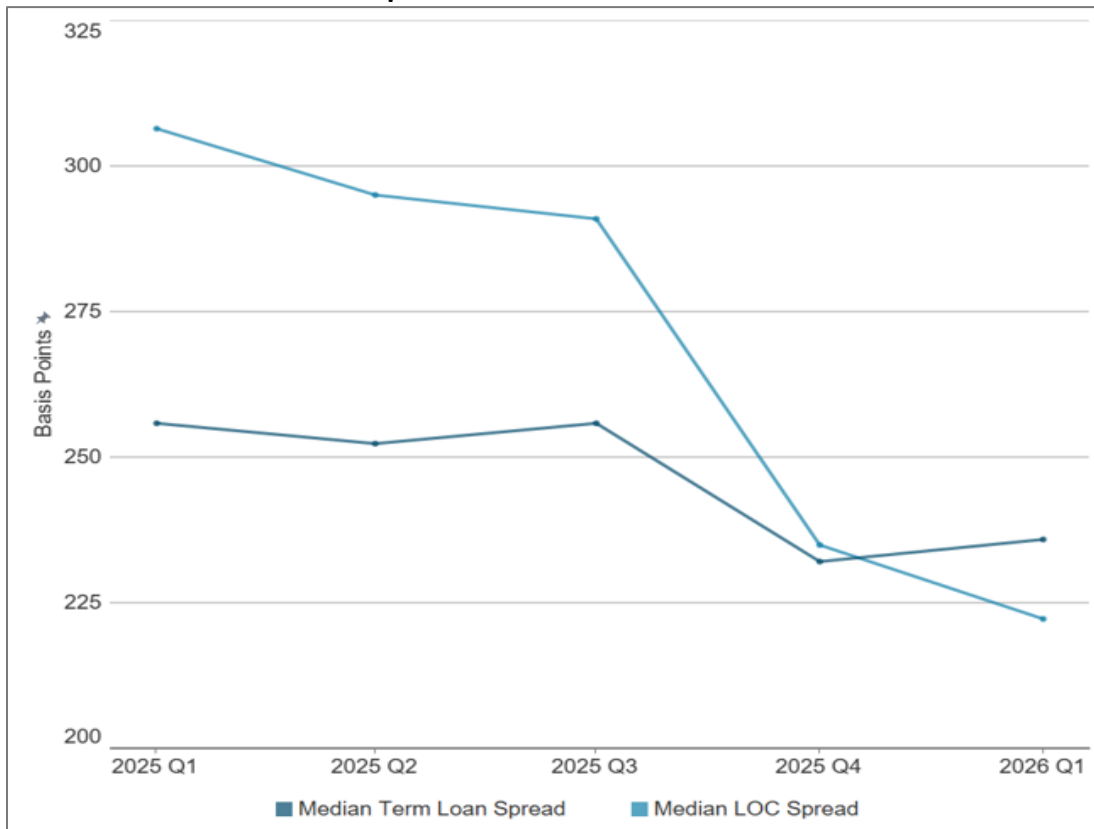
Source: FR 2028D, item 8.d.

In the first quarter of 2026, median interest rates on new lines of credit offered at rural banks decreased, while rates offered at urban banks increased. Quarter-over-quarter, the largest changes were a 45-basis point decrease in variable rates offered at rural banks and a 24-basis point increase in fixed rates offered at urban banks. Year-over-year, the largest change across all loan categories was a 117-basis point decrease for variable rate new lines of credit offered at rural banks.



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Chart 6: Interest Rate Floor Spreads Decrease Year-Over-Year



Note: Spread refers to the distance between the weighted average nominal interest rate and the weighted average interest rate floor. As of 2025:Q3, there was a methodology change impacting the calculation of median spread for term loans and lines of credit.

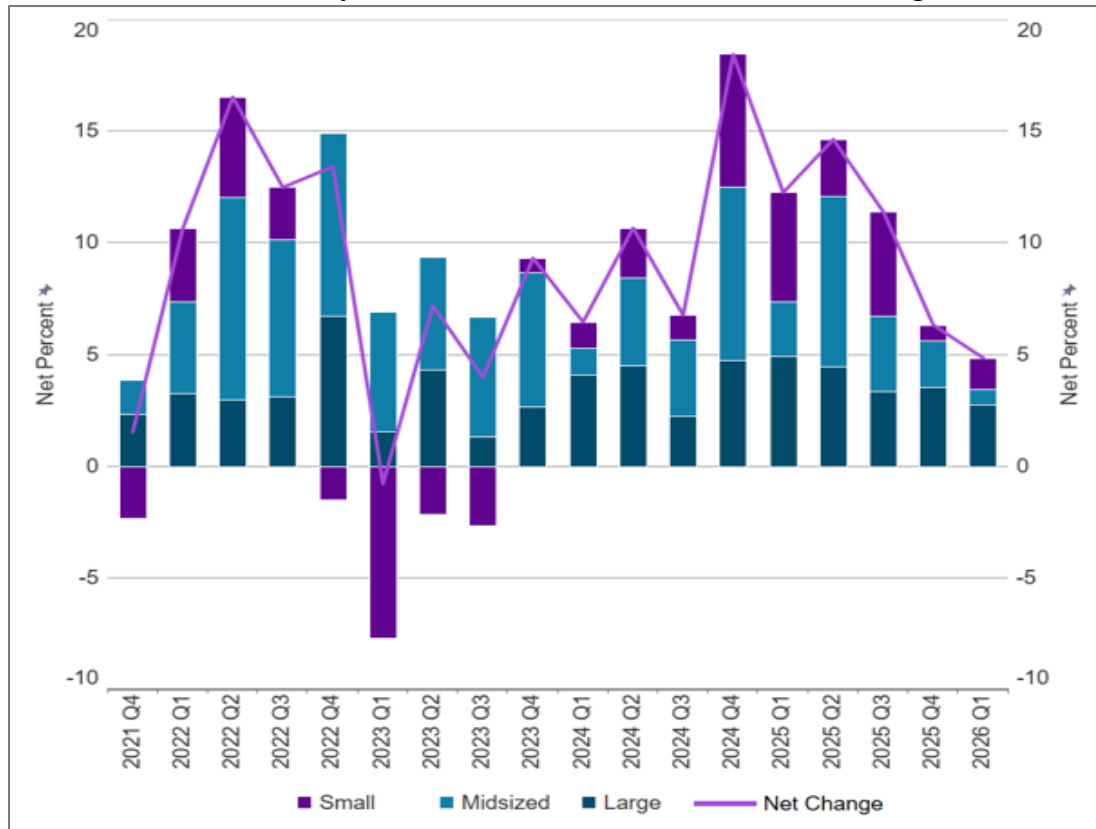
Sources: FR 2028D, items 5.c, 5.h, 6.d, 6.g

Year-over-year, median interest rate floor spreads for lines of credit decreased by 84-basis points while median term loan spreads decreased by 20-basis points. Quarter-over-quarter, median line of credit spreads decreased by 13-basis points while term loans remained stable.



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Chart 7: All Bank Sizes Report Continued Increases in Credit Line Usage



Note: Chart 7 shows diffusion indexes for credit line usage. The diffusion indexes show the difference between the percentage of banks reporting decreased credit line usage and those reporting increased credit line usage. Net percent refers to the percent of banks that reported having increased usage ("increased somewhat" or "increased substantially") minus the percent of banks that reported having decreased usage ("decreased somewhat" or "decreased substantially").

Source: FR 2028D, items 9 and 10.

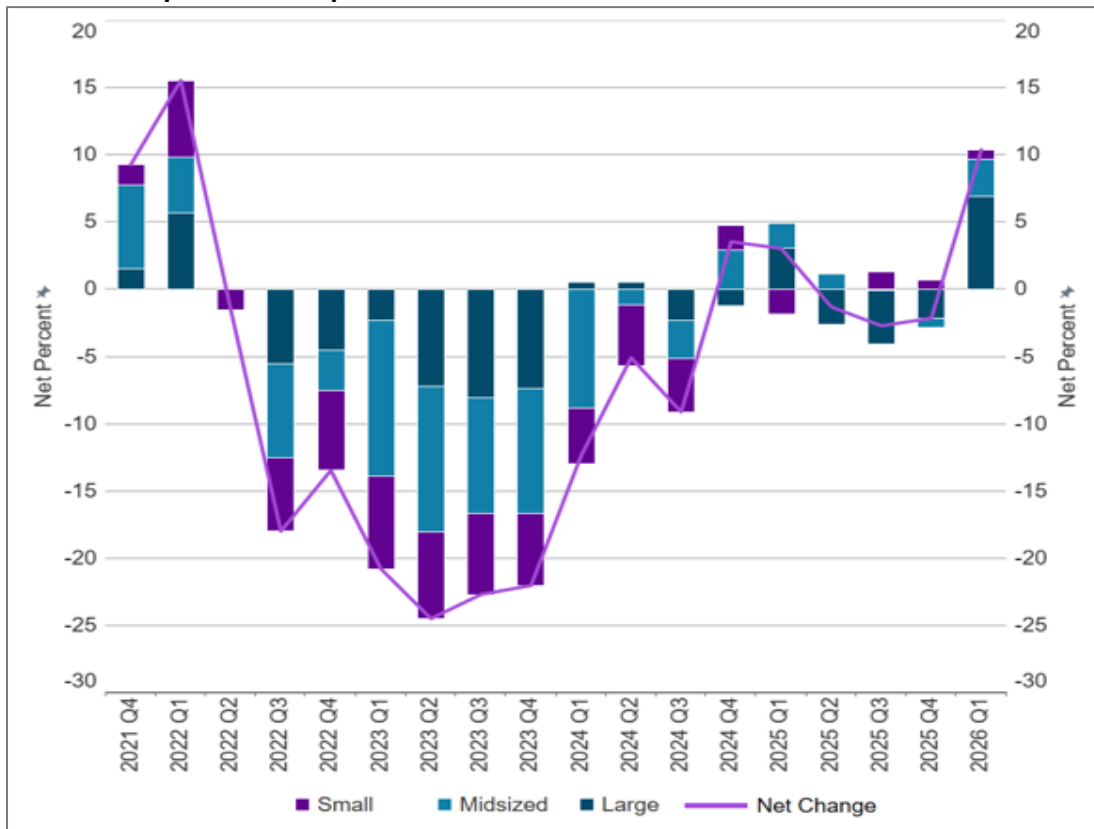
In the first quarter of 2026, 20% of respondents reported a change in credit line usage. About 5% of respondents, on net, indicated that credit line usage increased, down from 12% in the first quarter of 2025.

On net, all bank sizes reported an increase in credit line usage for the 10th straight quarter. Of the banks that reported an increase, about 89% cited changes in local or national economic conditions and 83% cited changes in borrower's business revenue or other business specific conditions as somewhat or very important reasons.



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Chart 8: Respondents Report Increase in Loan Demand



Note: Chart 8 shows diffusion indexes for loan demand. The diffusion indexes show the difference between the percentage of banks reporting weakened loan demand and those reporting stronger loan demand. Net percent refers to the percent of banks that reported having stronger loan demand (“moderately stronger” or “substantially stronger”) minus the percent of banks that reported having weakened loan demand (“moderately weaker” or “substantially weaker”).

Source: FR 2028D, item 11.

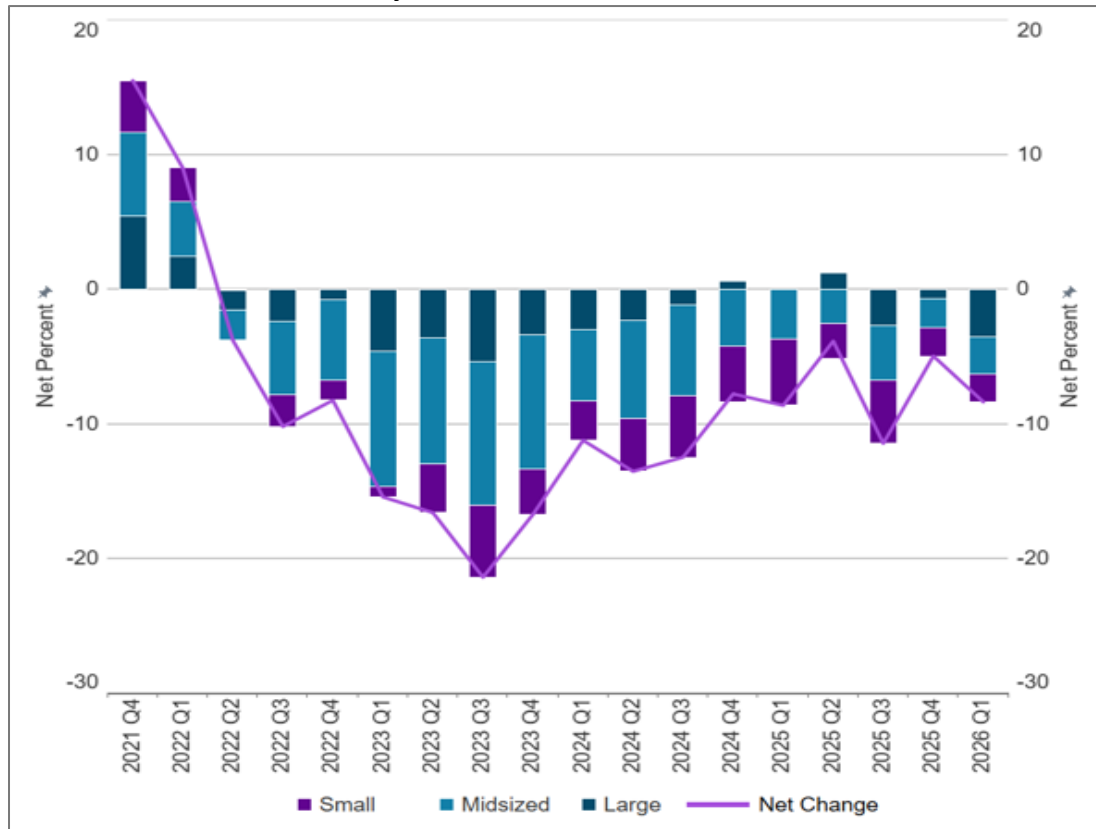
About 31% of respondents reported a change in small business loan demand in the first quarter of 2026. On net, about 10% of respondents indicated stronger loan demand across all bank sizes. This marks the first time since the first quarter of 2022 in which respondents of all bank sizes have reported a net increase in loan demand.

The stronger loan demand varies slightly from the [April 2026 Federal Reserve Senior Loan Officer Opinion Survey \(SLOOS\)](https://www.kansascityfed.org/surveys/small-business-lending-survey/) where C&I loan demand was reported to have remained basically unchanged for small firms (annual sales of less than \$50 million).



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Chart 9: Overall Credit Quality Continues to Decline



Note: Chart 9 shows diffusion indexes for credit quality of applicants. The diffusion indexes show the difference between the percentage of banks reporting a decline in credit quality and those reporting improvement in credit quality. Net percent refers to the percent of banks that reported improving credit quality (“improved somewhat” or “improved substantially”) minus the percent of banks that reported declining credit quality (“declined somewhat” or “declined substantially”).

Source: FR 2028D, items 18 and 19.

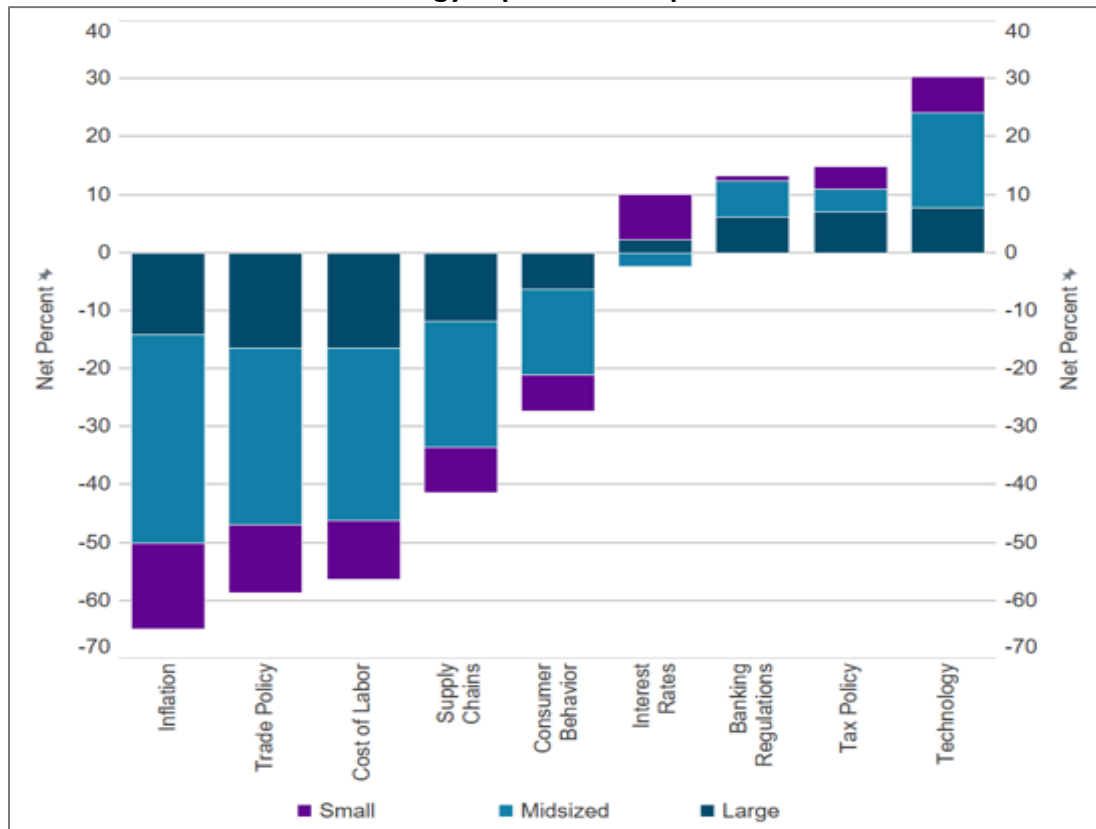
About 8% of survey respondents, on net, reported a decrease in applicant credit quality. This is the 16th consecutive net decrease since the second quarter of 2022.

Of the respondents reporting a change in credit quality, whether an increase or decrease, 56% cited the debt-to-income level of business owners as a very important reason. Other commonly cited reasons include credit scores and recent business income growth.



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Chart 10: Inflation and Technology Expected to Impact Small Business Loan Demand



Source: FR 2028D, Special Question.

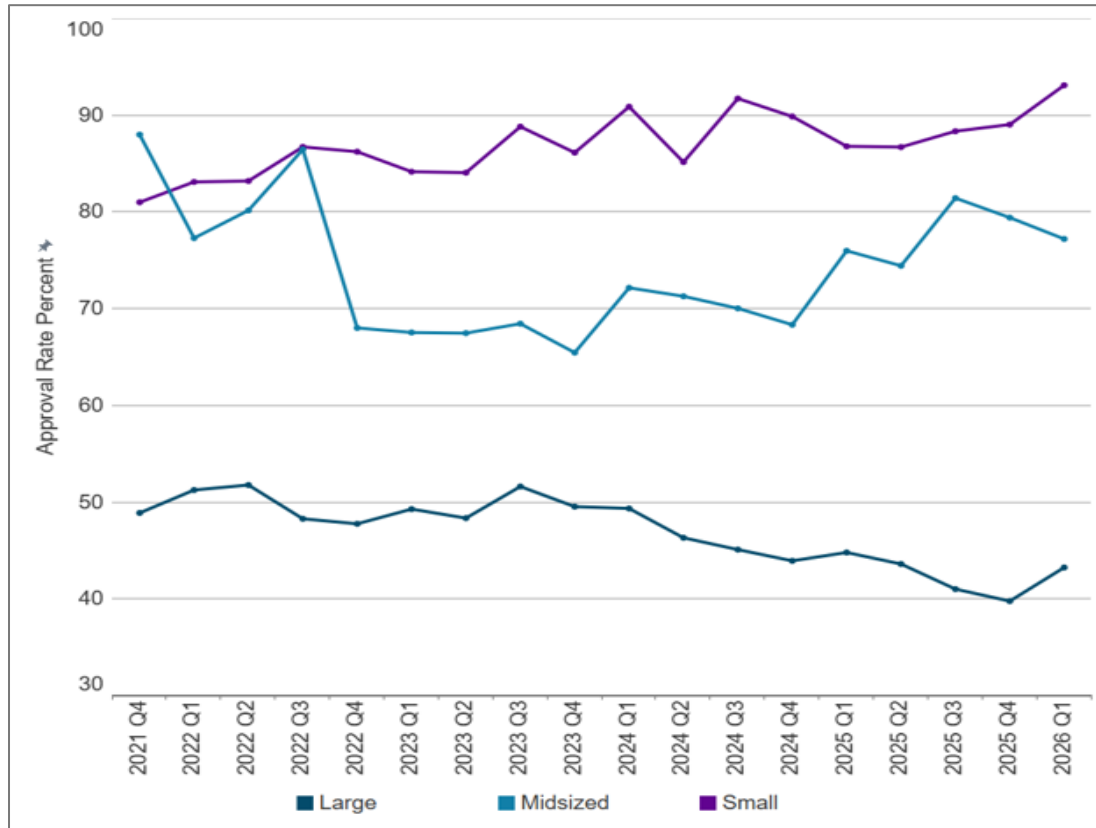
When asked to rate the impact several factors could have on small business lending over the next 12 months, respondents, on net, indicated that technology was the most likely factor to have a positive impact, while inflation was the most likely factor to have a negative impact. Quarter-over-quarter, the factor with the largest change in sentiment was interest rates, with 8% of respondents, on net, believing it will have a positive impact, compared to 57% last quarter.

When compared to the second quarter of 2025, technology has seen the largest positive change in sentiment, with 30% of respondents, on net, believing it will have a positive impact, compared to 12%. Conversely, inflation has seen the largest negative change in sentiment, with 65% of respondents, on net, believing it will have a negative impact, compared to 46%.



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Chart 11: Application Approval Rates Increase for Small and Large Banks



Source: FR 2028D, items 12.a and 13.

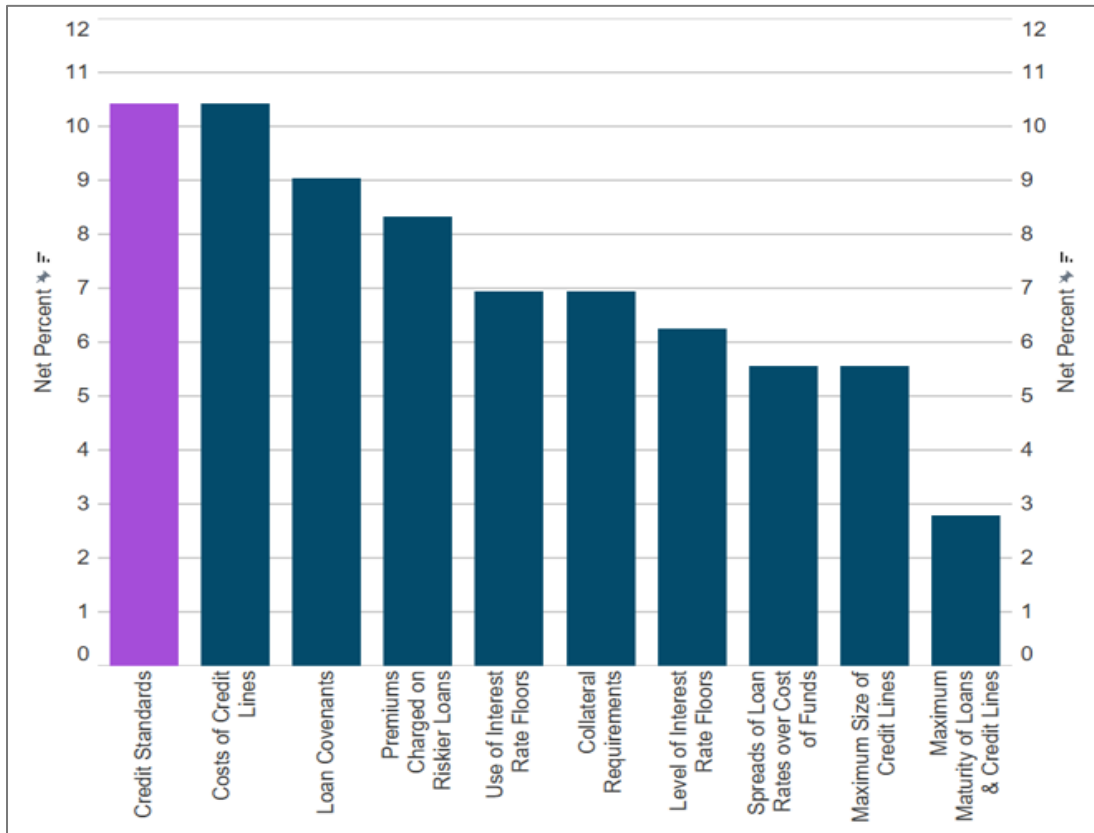
Quarter-over-quarter, application approval rates increased by 4% for small banks and 3% for large banks, while approval rates decreased by 2% for mid-sized banks.

About 71% of respondents indicated borrower financials as the most common reason for denying a loan. Other commonly cited reasons were credit history and collateral.



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Chart 12: Respondents Continue to Tighten Credit Standards



Note: Chart 12 shows diffusion indexes for credit standards (purple bar) and various loan terms. The diffusion indexes show the difference between the percentage of banks reporting tightening terms and those reporting easing terms. Net percent refers to the percent of banks that reported having tightened terms (“tightened somewhat” or “tightened considerably”) minus the percent of banks that reported having eased terms (“eased somewhat” or “eased considerably”).

Source: FR 2028D, items 14, 15, 16 and 17.

In the first quarter of 2026, about 10% of respondents, on net, reported tightening credit standards (purple bar). This continues the long-term trend of tightening credit standards throughout the past four years and is consistent with the tightening credit standards reported in the [April 2026 Federal Reserve Senior Loan Officer Opinion Survey \(SLOOS\)](#).

On net, respondents indicated that all loan terms tightened. About 76% of respondents cited worsening of industry-specific problems as a somewhat important or very important reason for tightening. Another frequently cited factor was less favorable or more uncertain economic outlook.



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