



Small Business Lending Survey

New Small Business Lending Increases as Most Interest Rates Begin to Decline

by: Daniel Harbour and Connor Jamison

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In the second quarter, new small business lending^[1] increased by 7.5% when compared to both the previous quarter and the same period in 2024. Outstanding loan balances also increased, as most interest rates across new term loans and lines of credit decreased slightly.

With over \$71 billion in small business loans reported, the 157 survey respondents reported that credit standards tightened and credit quality declined, continuing a long-term trend. Loan demand increased for the third consecutive quarter for midsized banks but decreased for large banks,^[2] while application rates remained relatively stable. Over the next 12 months, respondents expect trade policy, labor costs, and inflation to negatively impact loan demand.

When compared to the second quarter of 2024, outstanding small business loans increased by 1.8% and total loans increased by 1.5%. The year-over-year increase in small business loans was primarily driven by increases at midsized banks.

Quarter-over-quarter, small business loans increased by 0.5% and total loans increased by 1.0%.

Quarter-over-quarter, total new loan balances increased by 7.5%, with a 7.7% increase in new term loans and a 7.1% increase in new credit lines. When compared to second quarter 2024, total new loan balances increased by 7.5%, with a 9.2% increase in new term loans and a 3.9% increase in new credit lines. All bank sizes reported an increase in new loans year-over-year, with small banks reporting the largest percentage increase at 25.5%.

Median usage of fixed rate lines of credit was 53.5% compared to 38.3% of variable rate lines of credit. Quarter-over-quarter, total credit line usage reflected a slight decrease, from 41.9% to 41.0%.

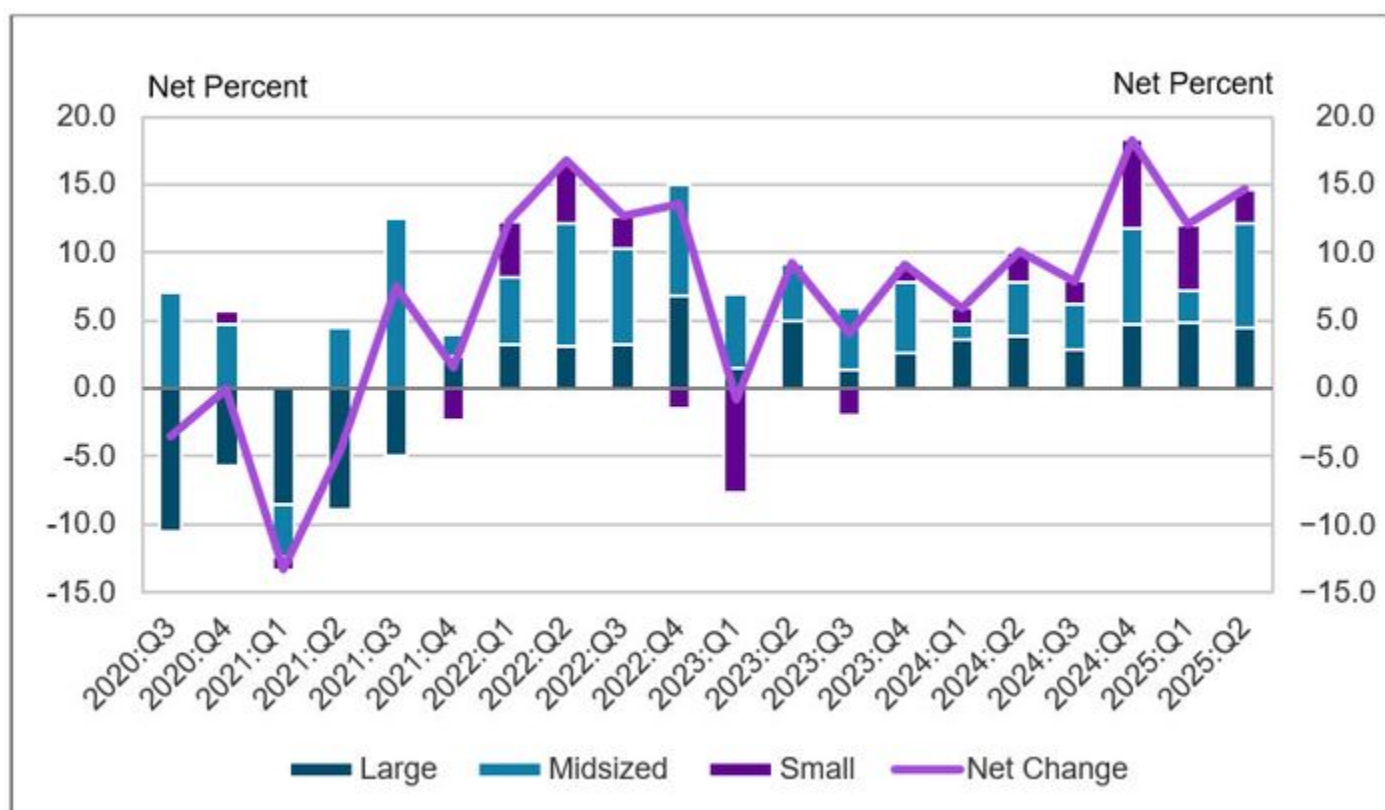
Variable rate lines constituted a larger portion of credit lines issued by banks, with respondents indicating they made up about 92% of total credit line usage.

Quarter-over-quarter, median interest rates on new term loans decreased slightly across all loan categories. Variable rates offered at urban banks remained the highest reported rates at 7.9%, while fixed rates offered at urban banks remained the lowest reported rates at 7.2%. The largest change was a 26-basis point decrease in variable rates offered at rural banks.^[3]

In the second quarter of 2025, median fixed rates on new lines of credit decreased by 72-basis points at rural banks and 6-basis points at urban banks, bringing both rates to 7.2%. At the same time, median variable rates offered at rural banks decreased by 33-basis points to 7.8%, while variable rates offered at urban banks remained basically unchanged at 8.1%.

Median interest rate floor spreads for lines of credit decreased by 106-basis points when compared to the second quarter of 2024, while term loans decreased by 41-basis points. As interest rate floor spreads continue to tighten, banks may experience an increase in refinancing activity from borrowers seeking more competitive terms.

Chart 7: All Bank Sizes Report Increases in Credit Line Usage for the Seventh Consecutive Quarter



Note: Chart 7 shows diffusion indexes for credit line usage. The diffusion indexes show the difference between the percent 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 second quarter of 2025, 25% of respondents reported a change in credit line usage. About 15% of respondents, on net, indicated that credit line usage increased, up from 12% last quarter.

On net, all bank sizes reported an increase in credit line usage for the seventh straight quarter. Of banks reporting an increase, 87% cited changes in local or national economic conditions and changes in borrower's business revenue or other business specific conditions as somewhat or very important reasons.

Chart 8: Respondents Report Decreasing Loan Demand



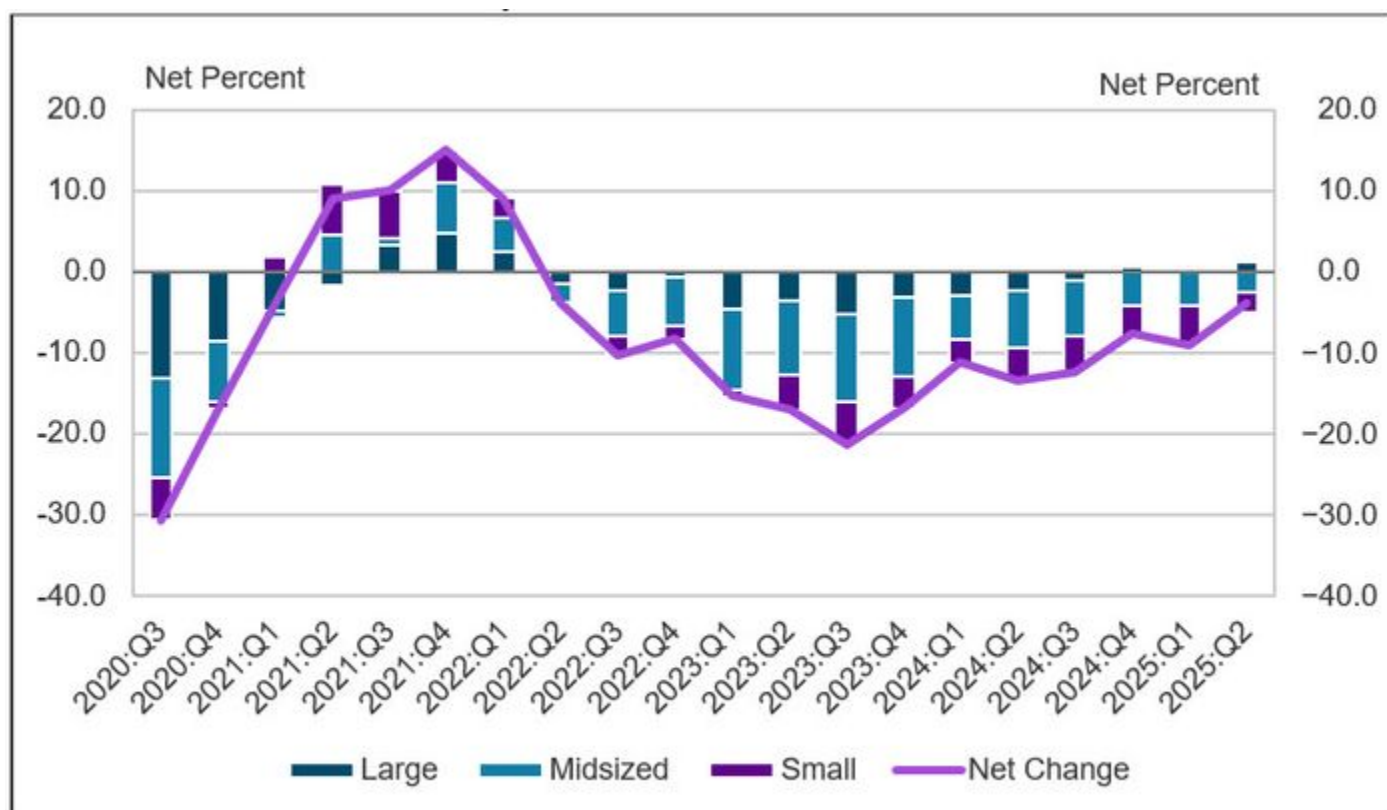
Note: Chart 8 shows diffusion indexes for loan demand. The diffusion indexes show the difference between the percent of banks reporting weakened loan demand and those reporting stronger loan demand. Net percent refers to the percent of banks that reported having stronger loan demand (“moderately stronger” 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 28% of respondents reported a change in small business loan demand in the second quarter of 2025. On net, about 1% of respondents indicated weaker loan demand, driven by large banks. This slight negative net response is the first after reported growth in the fourth quarter of 2024 and the first quarter of 2025.

The reported weaker loan demand is directionally consistent with the [July 2025 Federal Reserve Senior Loan Officer Opinion Survey \(SLOOS\)](#) where weaker C&I loan demand from small firms (annual sales of less than \$50 million) was reported.

Chart 9: Overall Credit Quality Declines for the Thirteenth Consecutive Quarter

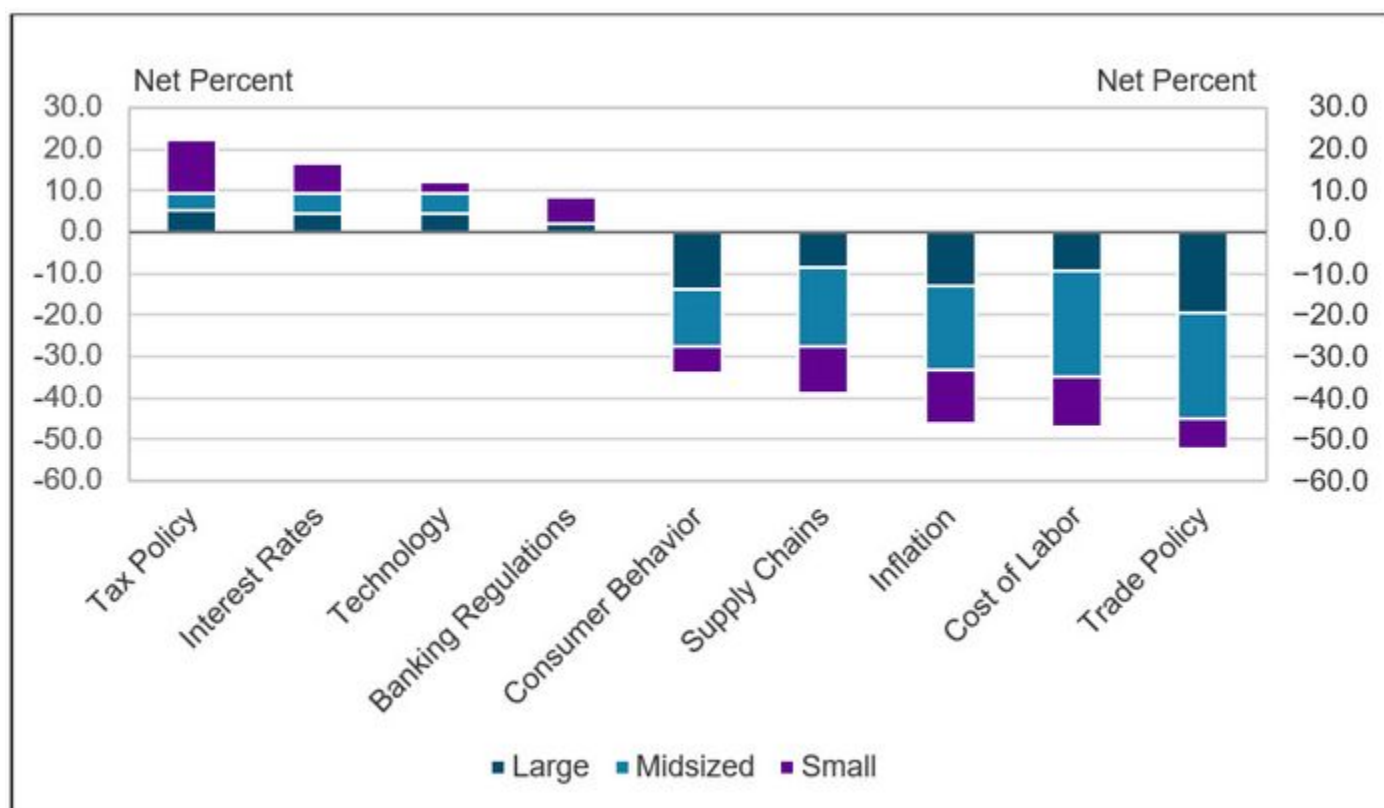


Note: Chart 9 shows diffusion indexes for credit quality of applicants. The diffusion indexes show the difference between the percent of banks reporting a decline in credit quality and those reporting improvement in credit quality. Net percent refers to the percent of banks that reported improving credit 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 4% of survey respondents, on net, reported a decrease in applicant credit quality. This is the 13th consecutive period in which respondents, on net, reported a decrease. Large banks saw their index rise from 0% to 1%, moving into positive territory. Midsized banks improved from a net decrease of 4% to 3% and small banks from a 5% net decrease to 3%.

Of the respondents reporting a change in credit quality, whether an increase or decrease, 50% cited the debt-to-income level of business owners as a very important reason. Other commonly cited reasons include liquidity position of business owners and recent business income growth.

Chart 10: Trade Policy, Labor Costs, and Inflation Expected to Negatively Affect Small Business Loan Demand

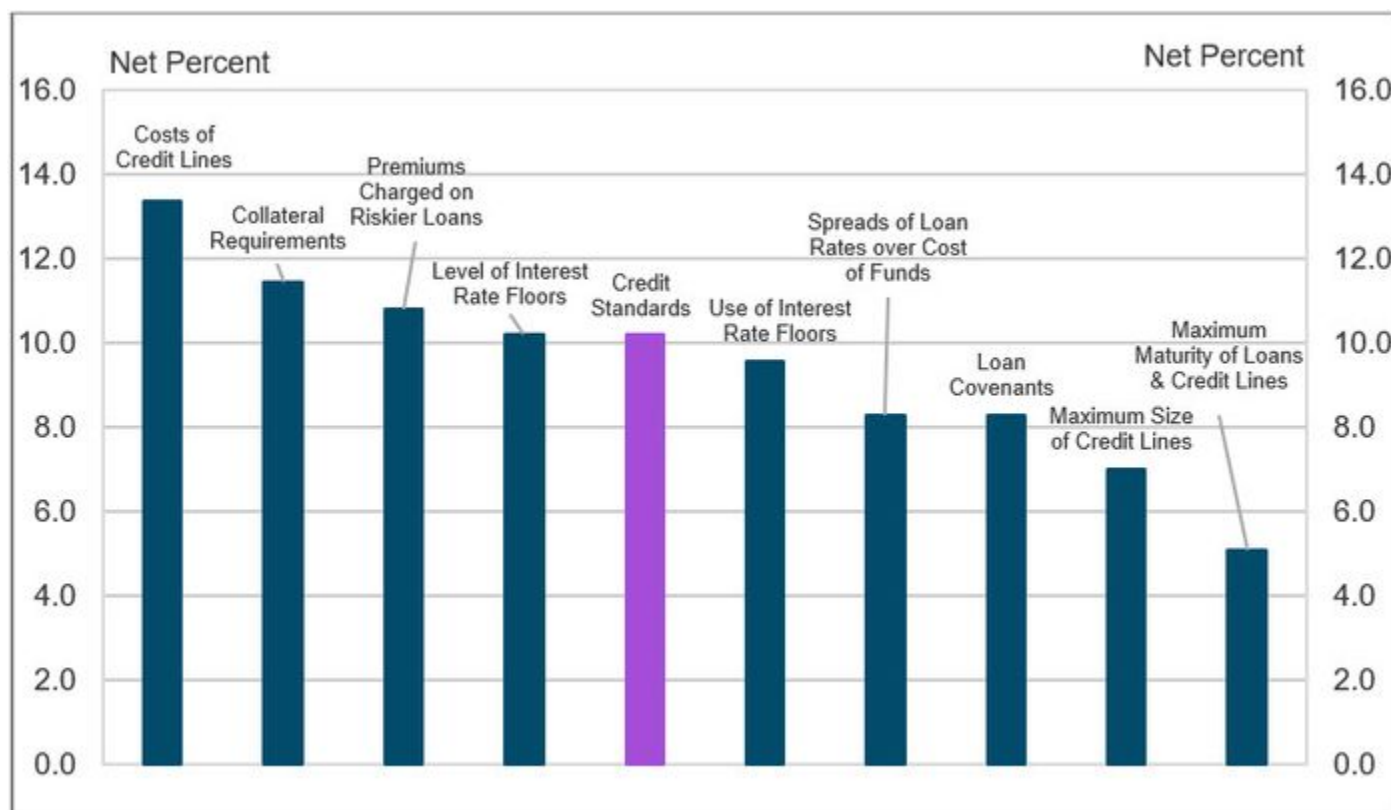


Source: FR 2028D, Special Question.

This quarter, a special question asked respondents to rate the impact several factors could have on small business lending over the next 12 months. On net, respondents expected trade policy, cost of labor, inflation, supply chains, and consumer behavior to negatively impact small business loan demand. On net, tax policy, interest rates, technology, and banking regulations were expected to have a positive impact.

Application approval rates decreased by 1% for small and midsized banks, while large banks remained unchanged quarter-over-quarter. About 72% of respondents indicated borrower financials as the most common reason for denying a loan. Other commonly cited reasons were borrower credit history and collateral.

Chart 12: Respondents Report Tightening Credit Standards for the Fifteenth Consecutive Quarter



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

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

About 10% of respondents, on net, reported tightening credit standards (purple bar) in the second quarter of 2025. This continues the long-term trend of tightening credit standards and is consistent with the tightening credit standards reported in the [July 2025 Federal Reserve Senior Loan Officer Opinion Survey \(SLOOS\)](#).

On net, respondents indicated that all loan terms tightened. About 85% of respondents cited less favorable or more uncertain economic outlook as a somewhat important or very important reason for the tightening. Other commonly cited reasons were worsening of industry-specific problems and reduced tolerance for risk.

Other contributors to the release include Alli Baranski, Lauren Bennett, Sophie Burge, Nicholas Courtney, Maurice Freese, Stefan Jacewitz, Josie Kennedy, Christina Louie, and Jordan Pandolfo.

Endnotes

- [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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Authors



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Daniel Harbour is an Assistant Vice President in the Supervision Risk Management (SRM) division. He leads various aspects of the Statistics and Data Management (SDM) department's financial reporting and structure functions, and provides data management services for the national Supervision & Regulation (S&R) Shared National Credit program and locally in SRM for Safety and Soundness and Consumer examination activities. In addition, he serves as the Kansas City accountable change executive role supporting S&R's transformational cloud initiatives, the Common Examination Platform and the Common Data Platform.

Mr. Harbour joined the Bank in 2011 as a supervisory compliance analyst in the Statistics, Structure and Reserves department (now SDM). He was promoted to his current position in September of 2024. He holds a bachelor's degree in Management and master's in business administration from Oklahoma State University. He also is a graduate from the Graduate School of Banking, Boulder, Colorado.



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