



Small Business Lending Survey

Inflation Expected to Impact Loan Demand

by: Daniel Harbour and Stefan A. Jacewitz

September 24, 2026

When asked to anticipate which factors would influence small business loan demand, nearly 70% of survey respondents indicated inflation would have a negative impact over the next year. In the second quarter of 2026, small and midsize banks reported a slight increase in loan demand, whereas large banks reported a decrease. New and outstanding small business lending increased when compared with the same period in 2025, while interest rates mostly declined.

When asked to anticipate which factors would influence small business loan ^[1] demand, nearly 70% of survey respondents indicated inflation would have a negative impact over the next year. In the second quarter of 2026, small and midsize banks ^[2] reported a slight increase in loan demand, whereas large banks reported a decrease. New and outstanding small business lending increased when compared with the same period in 2025, while interest rates mostly declined.

With more than \$66 billion in small business loans reported, the 146 survey respondents indicated that credit standards tightened, and credit quality had continued to decline, while application approval rates had decreased for small banks. Over the next 12 months, respondents, on net, indicated that the most likely factors to have an impact on loan demand would be inflation, trade policy, and cost of labor.

When compared with the second quarter of 2025, outstanding small business loans increased by 2.9%, C&I loans increased by 2.7%, and total loans increased by 4%. The year-over-year increase in small business loans was reported across all bank sizes and was primarily due to increases in variable-rate loans. Quarter over quarter, C&I loans and total loans both increased by 1.1%, and small business loans increased by 0.8%.

Compared with the second quarter of 2025, total new loan balances increased by 8.5%, with a 4.5% increase in new term loans and a 20.9% increase in new credit lines. The year-over-year increase in term loans was driven by large banks, while the increase in credit lines was driven by midsize banks. Quarter over quarter, total new loan balances increased by 9.7%, with a 9.8% increase in new term loans and a 9.4% increase in new credit lines.

Quarter over quarter, median total credit line usage decreased slightly, from 40.7% to 40.2%. Median usage of fixed-rate lines of credit increased to 54.7%, while usage of variable-rate lines of credit decreased to 38%.

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

Quarter over quarter, most rates on new term loans decreased slightly, while fixed rates on new term loans offered at urban banks remained stable. Variable rates offered at urban banks remained the highest, at 7%, while variable rates offered at rural banks were the lowest, at 6.7%. The largest year-over-year change was for variable rates offered at rural banks, declining by 80 basis points^[3].

In the second quarter of 2026, median interest rates on all new lines of credit offered at urban banks decreased, while fixed rates offered at rural banks increased. Quarter over quarter, the largest changes were a 36-basis-point decrease in fixed rates offered at urban banks and a 29-basis-point increase in fixed rates offered at rural banks. Year over year, the largest changes were a 94-basis-point decrease for variable rates offered at rural banks and a 92-basis-point decrease in variable rates offered at urban banks.

Quarter over quarter, median line of credit spreads decreased by 24 basis points, while term loans spreads decreased by 10 basis points. Year over year, median interest rate floor spreads for lines of credit decreased by 96 basis points, while median term loan spreads decreased by 27 basis points.

In the second quarter of 2026, 18% of respondents reported a change in credit line usage. About 11% of respondents, on net, indicated that credit line usage had increased, up from 5% last quarter.

On net, all bank sizes reported an increase in credit line usage for the 11th straight quarter. Of the banks that reported an increase, about 95% cited changes in local or national economic conditions and 91% cited changes in borrower's business revenue or other business specific conditions as somewhat or very important reasons.

About 26% of respondents reported a change in small business loan demand in the second quarter of 2026. On net, about 3% of respondents indicated stronger loan demand, driven by small and midsized banks. Large banks were the only bank size to report a net decrease in loan demand.

The marginally stronger loan demand is consistent with the [July 2026 Federal Reserve Senior Loan Officer Opinion Survey \(SLOOS\)](#), where C&I loan demand was reported to have remained basically unchanged for small firms (annual sales of less than \$50 million).

In the second quarter of 2026, 15% of respondents reported a change in applicant credit quality. On net, about 7% of survey respondents reported that applicant credit quality had decreased, continuing the long-term trend of declining credit quality that began in the second quarter of 2022.

Of the respondents reporting a change in credit quality, whether an increase or a decrease, 96% cited debt-to-income levels of business owners and liquidity positions of business owners as somewhat or very important reasons. Other commonly cited reasons included quality of business collateral and personal wealth of business owners.

When asked to rate the impact several factors could have on small business lending over the next 12 months, respondents, on net, indicated that inflation, trade policy, and cost of labor were the most likely factors to have an impact. Quarter over quarter, the factor with the largest change in sentiment was interest rates, with 18% of respondents, on net, believing it would have a negative impact, compared with last quarter, when 8% believed it would have a positive impact.

Interest rates and inflation have seen the largest shifts in sentiment year over year, with respondents' views trending negative. Sentiment for interest rates declined 35 points, moving from 17% expecting a positive impact in the second quarter of 2025 to 18% expecting a negative impact in the second quarter of 2026. Inflation sentiment has shifted 23 points, with the share of respondents expecting it to have a negative impact rising from 46% to 69%.

Quarter over quarter, application approval rates decreased by 3% for small banks, while approval rates increased by 1% for large banks and remained stable for midsized banks. Year-over-year approval rates increased by 3% for small and midsized banks, while large banks remained stable.

About 69% of respondents indicated borrower financials as the most common reason for denying a loan. Other commonly cited reasons were credit history and collateral.

In the second quarter of 2026, about 8% of respondents, on net, reported tightening credit standards (purple bar). This continues the long-term trend of tightening credit standards, which varies slightly from the [July 2026 Federal Reserve Senior Loan Officer Opinion Survey \(SLOOS\)](#), where credit standards remained basically unchanged.

On net, respondents indicated that all loan terms had continued tightening. About 73% of respondents cited less favorable or more uncertain economic outlook as a somewhat important or very important reason for tightening. Other frequently cited factors were worsening of industry-specific problems and reduced tolerance for risk.

Other contributors to the release include Sophie Ast, Alli Baranski, Lauren Bennett, Mo Freese, Josie Kennedy, 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 [U.S. Census Bureau](#) population data.

Authors



Daniel Harbour

Assistant Vice President

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.



Stefan A. Jacewitz

Assistant Vice President

Stefan Jacewitz serves as an Assistant Vice President and economist at the Federal Reserve Bank of Kansas City, where he is the oversight officer of the Banking and Financial Markets group. Over the course of his career, Stefan has held leadership positions within the Federal Reserve System, the U.S. Department of the Treasury, and the Federal Deposit Insurance Corporation (FDIC). His work has been cited by the New York Times, the Financial Times, Bloomberg, WIRED, and the American Banker, as well as in the U.S. Senate and House of Representatives. His scholarly research has been published in the Review of Financial Studies, the Journal of Econometrics, the Journal of Money, Credit, and Banking, the Journal of Financial Stability, the Review of Corporate Finance Studies, and the Journal of Financial Services Research, where he also serves as an Associate Editor. Stefan holds a Ph.D. in Economics with a focus on financial econometrics from Texas A&M University and B.A. degrees in Mathematics and Economics from the University of Oklahoma. He has also completed the Senior Executive Fellows program at the Harvard Kennedy School and the Yale Program on Financial Stability's Symposium at the Yale School of Management.