Key Points on Unmet Demand for Credit

- ***There is certainly a lack of credit available for many creditworthy businesses that seek to borrow.*** As Chairman Bernanke said earlier this month, "it seems clear that some creditworthy businesses--including some whose collateral has lost value but whose cash flows remain strong--have had difficulty obtaining the credit that they need to expand, and in some cases, even to continue operating."
    - **45 percent of businesses seeking credit found that their borrowing needs were not satisfied**, according to a special survey by the National Federation of Independent Business released in February. By comparison, only about 11 percent of borrowers did not get most or all of the credit they wanted in a similar survey conducted in 2006.
    - **39 percent of small businesses were struggling to access credit,** according the most recent annual survey of the National Small Business Association.
    - **44 percent of small businesses restricted their capital spending below desired levels because of borrowing difficulties**, according to the Duke/CFO Magazine Survey.
    - **Despite some improvement, the Federal Reserve's Senior Loan Officer Survey suggests that credit standards remain tight for small businesses**. Banks reported no change in lending standards last quarter after 13 straight quarters of net tightening – which suggests that, while conditions may be improving, credit remains constrained.
    - **In May, interest rates on small commercial loans were 3.5 percent higher than the federal funds rate--the widest gap since the series began in 1986**, according to Federal Reserve data.
- ***At the same time, demand is clearly an issue that has constrained small business borrowing:*** That is why the Administration is working to support small businesses on all fronts – not only with the new lending initiatives that the Administration has proposed, but by proposing tax cuts that encourage small business hiring and investment and by temporarily reducing fees on SBA loans.
- ***The Small Business Lending Fund is designed to both support banks that make credit more available to small businesses, and encourage borrowers to get off the sidelines:*** At the same time that the Small Business Lending Fund provides incentives for lenders to increase their lending to small businesses, it also enables lenders to pass through those incentives to borrowers in the form of lower interest rates – helping to get small businesses off the sidelines. Likewise, many state programs like Capital Access Programs or loan guarantee programs help to reduce the cost of borrowing for small businesses, making them more likely to seek credit.