Financial Reporting Quality and Bank Credit Allocation to U.S. Small Firms Since 2020: Evidence From Loan Approval and Interest Rates

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This literature review examines how financial reporting quality affects U.S. banks' credit allocation to small businesses, focusing on loan approval and interest rate setting in the post-2020 lending environment. It addresses the following research question: how does financial reporting quality affect bank credit approval and interest rates for small U.S. businesses? Synthesizing accounting and finance research, this review argues that higher financial reporting quality reduces lender uncertainty and monitoring costs, increasing approval likelihood and lowering loan pricing, effects that likely amplified under tightening in the U.S. since 2020 as banks reverted to stricter screening following pandemic-era interventions.

Keywords: financial reporting quality, small businesses, loan decisions, interest rates, information asymmetry, SME lending, credit rationing, GAAP, loan covenants

INTRODUCTION

Bank credit allocation to small businesses in the U.S. is influenced by persistent information asymmetry between borrowers and lenders and economic disruptions since 2020. Compared with large businesses, small firms are less likely to provide lenders with factual, detailed financial information; this makes it increasingly difficult for lenders to assess credit risk. Since the COVID-19 pandemic, banks have begun requiring more collateral and relying heavily on existing bank relationships in their lending, in response to the economic disruptions. Following the end of temporary government intervention, banks have relied more on the financial reporting

quality of businesses in their loan decisions. This section reviews existing research on how financial reporting quality affects lending outcomes for small U.S. firms since 2020.

The Importance of Small Firms in the U.S. Economy

Small businesses are the base of the U.S. economy; however, they face challenges in obtaining bank credit due to several factors. According to the Board of Governors of the Federal Reserve System (2022), small firms account for a large share of jobs. In addition, small businesses experience higher loan denial rates and less favorable loan terms than large businesses. Unlike publicly traded companies, small businesses typically lack audited financial statements and a long-term history, which increases lenders' uncertainty about repayment ability. This information uncertainty raises costs and increases the time needed to consider small businesses for loans. As a result, understanding things that reduce information asymmetry, such as financial reporting quality, is essential to explain bank credit allocation to small businesses in the U.S.

Information Asymmetry in Small-Business Lending

Information asymmetry (i.e., an imbalance in available information between borrower and lender) can reduce small firms' access to credit. As DeZoort et al. (2017) stated, information asymmetry is more common in small organizations than in large ones. This tendency arises because small entities are often owned by a single owner who controls everything and may not be transparent about the business's true financial condition (Ciza et al., 2025). When lenders are unable to accurately read financial information, they are more likely to deny a loan. If they still approve the loan, the interest rate is likely to increase along with other unfavorable terms. Therefore, information asymmetry has a significant negative impact on the ability to obtain bank credit.

Persistent Credit Restrictions for Small Businesses

Banks rely on collateral and existing banking relationships because of information asymmetry. This is due to the higher perceived risk of small firms (Jin et al., 2022; Russo et al., 2024). Low-quality financial reporting is associated with high loan defaults, which is why lenders protect themselves from this risk with collateral and stricter loan terms. Lender reliance on risk mitigation highlights the need for high-quality financial reporting for small firms to obtain bank financing with lower interest rates. This mechanism predicts that post-2020 tightening should amplify the pricing and approval effects of reporting quality, which the subsequent section evaluates.

Credit Rationing and Monitoring Costs

When information asymmetry is present, banks are likely to limit bank credit. Prior research found that banks limit the supply of bank credit to small businesses due to higher risk assessment and monitoring costs (Board of Governors of the Federal Reserve System, 2022). Monitoring small businesses is inherently costly due to the need for ongoing financial statement and loan compliance oversight, especially when financial reporting quality is low. When it is low, banks have to rely on alternative sources to make loan decisions. Taken together, the evidence indicates that high-quality financial reporting increases the odds of loan approval and lowers the cost of those loans.

Post-2020 Changes in the Small Business Lending Environment

Small businesses in the U.S. have faced financial difficulties since 2020. Emergency incentives, such as the U.S.'s Paycheck Protection Program (PPP), temporarily increased access to bank credit during the COVID-19 pandemic. Nevertheless, recent data from Anderson and D'Innocenzio (2023) and Harbour and Jamison (2025) express that banks tightened lending conditions after these initiatives ended. Inflation, growing interest rates, and increased economic uncertainty were the causes of this. This demonstrates a return to cautious lending procedures, with a focus on risk assessment for small-business borrowers. Lenders' reliance on trustworthy, accurate, and transparent financial information has become further apparent post-2020.

Why Financial Reporting Quality Matters More Since 2020

The importance of financial reporting quality in small businesses has grown since 2020. A study conducted after the COVID-19 pandemic found that heightened economic uncertainty has prompted lenders to rely more heavily on financial information when evaluating loan applications. When evaluating loan applications, lenders use financial data to assess credit risk and repayment ability (Corredera-Catalán et al., 2021). With economic uncertainty, lenders are becoming more risk-averse, making it harder for small businesses to obtain bank loans. As lenders become pickier, the need for high-quality financial statements for a business increases.

After the pandemic, interest rates have increased for small-business loans. KPMG (2022) notes that benchmark rate increases in early 2022 contributed to higher borrowing costs. In May of 2022, interest rates were increased by 0.50 percentage points, which came after a 0.25 percentage point increase in March of 2022. Small firms with less than ideal financial reporting are especially vulnerable. This highlights the need for quality financial statements.

Financial Reporting Quality Definition and Usefulness for Lenders

Financial reporting quality plays a considerable role in addressing information asymmetry between small businesses and lenders. According to Ciza et al. (2025), Schroff (2015), and Sirembe et al. (2025), financial reporting quality is the ability of financial statements to present reliable, accurate, and relevant financial information about a firm in a timely manner that is easy for all to understand. High-quality financial statements allow lenders to accurately evaluate a firm's credit risk, while low-quality financial statements make it harder for lenders to evaluate a firm's credit risk. In screening terms, reporting quality reduces lender uncertainty by improving the precision of cash-flow forecasts and the enforceability of covenants, thereby lowering expected monitoring costs and risk premiums. Correspondingly, financial reporting quality is a great screening tool for banks and other financial institutions to use in deciding whether to approve or deny a loan and what terms to offer.

Gaps in Existing Research

Although the existing literature shows a strong link between financial reporting quality, loan approval, and interest rates, several gaps remain. Existing studies display that higher-quality financial reporting is associated with higher approval rates and improved terms, such as lower interest rates, while lower-quality financial reporting is associated with lower approval rates and less favorable terms, such as high interest rates (Cassar et al., 2015; Kalezić and Fabris, 2019; Lu et al., 2024). Despite this, much of the literature reviewed focuses on larger firms, non-U.S. firms, or periods before 2020, which contradicts the focus of this literature review. Furthermore, much of the existing literature reviews loan approval rates and interest rates separately, rather than together. These gaps highlight the need for a synthesis of post-2020 small-U.S.-firm lending.

Purpose and Contribution of This Literature Review

The purpose of this literature review is not to contribute original research; rather, it is to bring together existing research to examine how financial reporting quality affects bank loan approval rates and interest rates for small businesses in the U.S. post-2020. Utilizing existing accounting, finance, and policy studies, pre- and post-pandemic research will be brought together. Incorporating a literature-based approach, the study evaluates how financial reporting quality functions within a stricter, uncertain lending environment. Relevant insights for small-business owners, lenders, and policymakers seeking to improve credit access in the U.S. post-pandemic will be provided.

Conceptual Overview

Taken together, this conceptual framework demonstrates that financial reporting quality is a critical factor in bank loans to small businesses. Prior studies reveal that high-quality financial statements lower the perceived risk and improve lender confidence. Through high-quality reporting, firms can reduce information asymmetry, thereby improving the likelihood of being approved for a bank loan (with a better

interest rate) and reducing the work and cost required for risk assessment. Ultimately, this foundation serves as a starting point for the following literature review, which examines how financial reporting quality affects loan decisions and interest rates in U.S. small-business lending.

LITERATURE REVIEW

The existing literature provides extensive evidence that financial reporting quality plays a crucial role in small businesses' ability to obtain bank credit by shaping lenders' perceptions of risk and repayment ability. When financial information is complete, accurate, and clear, lenders are better able to assess a borrower. Hence, access to credit is improved, and borrowing costs are decreased. Conversely, when financial information is incomplete, inaccurate, or unclear, lenders have a harder time determining whether a borrower is creditworthy, leading to less credit access and higher borrowing costs (Ciza, 2025). These effects operate through multiple factors, such as loan approval decisions, interest rate setting, covenants, and monitoring intensity. The following literature review synthesizes prior research to examine how financial reporting quality influences small business loan outcomes.

Financial Reporting Quality and Access to Bank Financing

A clear relationship exists between financial reporting quality and access to bank loans for small businesses. In line with Benkraiem and Miloudi (2011), firms in the information and communications technology (ICT) industry with accurate and transparent financial information are far more likely to be approved for a bank loan than those with inaccurate or ambiguous financial information. This underscores the need for high-quality financial reporting that is accurate, transparent, and relevant to qualify for a bank loan. Thus, small firms may benefit from ensuring their financial information meets these requirements.

Evidence from the U.S. literature clarifies the need for transparency and accuracy within financial statements for bank credit access. Orzechowski (2019) stated that banks tend to value clarity most in financial statements when making loan decisions. When a firm ensures clarity in its financials, lenders can easily see the information they need. Respectively, the likelihood of loan approval increases.

Financial clarity is an important concept when it comes to financial reporting quality. Financial clarity can be defined as the degree to which a firm's financial disclosures are accurate, transparent, and easy for all stakeholders to read and understand (Pradhan et al., 2025). The key part of this definition is the requirement that financial statements be easy to understand. If lenders are not able to comprehend a financial statement, they are not going to approve a loan. As a result, it is important for a small enterprise to ensure the readability of its financial statements.

Financial Reporting Quality and Loan Approval Decisions

Financial reporting quality has a crucial role in lenders' loan approval decisions for small businesses by giving insight into borrower risk and repayment ability. Prior research expressed that one of the most common reasons for loan denial is incomplete, unclear, or largely low-quality financial information, especially during periods of greater economic uncertainty (Corredera-Catalán et al., 2021). Filipova et al. (2025) added that lenders, especially, rely on income statements, balance sheets, and cash flow statements in loan decisions. When financial reports lack the necessary information, accuracy, and transparency, lenders have a harder time making loan decisions, leading to a higher denial rate. These findings prove the importance of high-quality financial reporting.

Reporting Method Choice and Credit Risk

The choice of financial reporting method influences how lenders make loan decisions based on credit risk. DeZoort et al. (2017) stated that lenders view financial statements prepared under Generally Accepted Accounting Principles (GAAP) as more informative and reliable than other methods, leading to higher loan approval rates and more favorable credit terms. This is especially true when potential borrowers are deemed high-risk. When financial statements meet lenders' expectations and are high-quality, lenders are more

likely to trust the information and approve the loan. These findings suggest that the choice of reporting method is crucial for small firms, as it affects loan application outcomes.

Financial Reporting Quality and Interest Rates

Along with loan approval, financial reporting quality also affects interest rates for small-business loans. Empirical evidence from Kalezić and Fabris (2019) establishes that companies with lower-quality financial reporting face higher borrowing costs due to the increased risk. Lenders rely on risk assessment when making loan decisions. If their risk is higher, they are going to charge a higher interest rate, as there will be a greater likelihood of nonpayment. For small firms, even a slight increase in interest rates can be significant. As precisely shown, financial reporting quality plays a sizable role in interest rates for small firms.

Accrual Accounting and the Cost of Debt

Accrual-based accounting has been proven to reduce borrowing costs by improving the quality and transparency of financial reporting. Cassar et al. (2015) stated that firms using accrual accounting report lower interest rates than those using other methods. Accrual accounting provides lenders with more accurate, transparent, and relevant financial reports. This evidence supports the role of accounting methods in financial reporting quality, which affects interest rates.

Financial Statement Breakdown and Loan Pricing

The level of detail and disaggregation in financial statements affects lenders' pricing decisions for small business loans. Research on this topic finds that more detailed reporting is associated with lower loan costs, particularly for borrowers without established bank relationships or deemed high-risk (Lu et al., 2024). Broken-down financial statements allow lenders to easily assess risk, reducing uncertainty and improving pricing for small firms. This evidence highlights that the structure and detail of financial information are also important in loan pricing, as well as accuracy.

Debt Structure, Earnings Quality, and Reporting Incentives

Debt structure can influence a firm's incentive to maintain high-quality financial reporting quality along with high earnings. Studies examining the relationship between debt and earnings quality for small businesses find that firms with higher leverage may engage in reporting practices that affect financial statement credibility (Sequeira et al., 2024). Although debt can encourage managers to perform well, it can also lead them to manipulate reported earnings under financial pressure. This asserts why lenders place a strong emphasis on careful monitoring and high-quality financial reporting when working with small businesses.

Loan Contract Terms Beyond Interest Rates

When a firm has low-quality financial reporting, banks tend to respond with stricter loan terms and requirements. Prior research states that weaker financial reporting quality often results in stricter collateral requirements, tighter loan covenants, and a shorter payback period (Costello & Wittenberg-Moerman, 2011; Donelson et al., 2017). Banks and other financial institutions do this to protect themselves from risk when financial information is unreliable. Regardless, since such terms can constrain bank credit for small firms, small firms need to have high-quality financial reporting.

Covenant Design and the Cost of Debt

Financial reporting quality also influences the design and effectiveness of debt covenants. Prior studies indicate that higher accounting quality reduces the need for restrictive covenants and lowers total borrowing costs (Spiceland et al., 2016). When lenders are able to trust financial information, they can rely less on harsh covenants and more on performance monitoring. This relationship marks how financial reporting quality affects the structure and cost of bank lending.

Substitutes to Financial Reporting Quality

Financial reporting quality does not operate alone. Evidence suggests that collateral, relationship lending, and credit monitoring can help mitigate the negative effects of low-quality financial reporting (Deyganto et al., 2024). It is important for small businesses to recognize the need to establish a relationship with a trusted bank and to have collateral. Notwithstanding, these substitutes are costly and not available to all small businesses. Thus, financial reporting quality remains a critical part of lending outcomes.

Bank Market Power and Lending Decisions

Bank market structure also influences the extent to which lenders rely on financial reporting quality. Research suggests that banks operating in more competitive markets place greater emphasis on financial statements, while banks with greater market power may rely more on relationships (Mi et al., 2024). This illustrates that firms can benefit from establishing a strong relationship with a bank. This evidence discloses the importance of financial reporting quality when a bank relationship has not been established. All things considered, it is clear that bank market power does have a role in lending decisions for small businesses.

Literature Takeaways

Generally speaking, the literature provides strong evidence that financial reporting quality significantly affects a small enterprise's ability to obtain bank credit and its borrowing costs. Across many settings, high-quality financial reporting is associated with higher loan approval rates, lower interest rates, and more favorable covenants. Alternatively, low-quality financial reporting is associated with lower loan approval rates, higher interest rates, and less favorable covenants. The relevance of these findings to a post-2020 U.S. setting remains underexplored. This gap serves as motivation for the subsequent analysis of the post-2020 U.S. lending environment and its connotations for financial reporting quality.

TABLE 1
LITERATURE REVIEW KEY THEMES AND FINDINGS

Theme	Key Findings	Implications for Small U.S. Businesses
Financial Reporting Quality and Credit Access	Clear, accurate, and transparent financial information improves lenders' risk assessment, increasing credit access and lowering borrowing costs.	Invest in high-quality, readable financial statements to improve loan approval chances.
Financial Clarity and Readability	Lenders value clarity and ease of understanding in financial statements.	Ensure disclosures are understandable for everyone.
Loan Approval Decisions	Low-quality or incomplete reporting is a major reason for loan denial, especially in times of economic uncertainty.	Maintain complete and accurate financial statements to reduce denial risk.
Reporting Method Choice (GAAP)	GAAP-based financial statements are viewed as more reliable, particularly for high-risk borrowers.	Choosing GAAP can improve approval rates and credit terms.

Interest Rates and Borrowing Costs	Lower-quality financial reporting is associated with higher interest rates due to the increased perceived risk.	High-quality financial reporting can reduce borrowing costs.
Accrual Accounting	Accrual accounting improves transparency and lowers the cost of debt.	Using accrual accounting may lead to cheaper financing.
Financial Statement Detail	More disaggregated and detailed reporting reduces uncertainty and loan pricing.	Provide detailed breakdowns, especially if lacking existing bank relationships.
Loan Terms Beyond Interest Rates	Poor reporting quality leads to stricter covenants and lowers total borrowing costs.	Reliable financial reporting allows for less restrictive lending structures.
Substitutes for Reporting Quality	Collateral, existing bank relationships, and stricter monitoring can offset low-quality financial reporting but are more costly.	Reporting quality remains critical when substitutes are unavailable.
Bank Market Power	Competitive banks rely more on financial statements; powerful banks rely more on relationships.	Reporting quality is especially important without established bank relationships.

POST-2020 U.S. SMALL BUSINESS LENDING ENVIRONMENT

The small-business lending environment in the U.S. has changed significantly since 2020 due to the economic effects of the COVID-19 pandemic, government intervention, and subsequent credit tightening. Emergency government programs temporarily increase access to bank credit for small firms, but after their expiration, banks become more cautious in their lending practices. In this environment, banks have depended on reliable financial statements to base their decisions on. The importance of financial reporting quality in small business loan approval, loan pricing, and loan terms is to be explained.

COVID-19 and the Paycheck Protection Program (PPP)

The COVID-19 pandemic changed small-business lending by disrupting the economy and leading to government action. The U.S. government created the Paycheck Protection Program (PPP), which made it easier for small businesses to get bank loans by relaxing lending rules (Abugri & Osah, 2025). Because PPP loans could be forgiven, banks faced less risk and approved more loans. During the program, financial reporting quality mattered less in loan decisions. While the PPP helped small firms in the short term, it also made financial reporting quality less important for lending outcomes during that time.

The PPP made it easier for small businesses to get loans, but it also changed normal lending and screening practices. Abugri and Osah (2025) note that lenders focused on speed and the number of loans, rather than fully assessing risk, because of the program's design and government backing. This made it harder for banks to tell high-risk borrowers from low-risk borrowers. So, lending results during the PPP may not reflect banks' usual ways of judging credit risk. After emergency programs such as the PPP ended,

lenders returned to their standard processes, and financial reporting quality once again became important in small-business lending.

Credit Tightening After the PPP

Following the end of the PPP and other pandemic emergency programs, banks tightened credit and became more conservative with small-business loans. Evidence from federal media reports indicated that loan approval rates declined while lending standards increased across many lenders (Anderson & D'Innocenzio, 2023; Harbour & Jamison, 2025). Since inflation and rising interest rates raised concerns about repayment ability, lenders relied more heavily on financial statements. This increased the importance of having high-quality financial statements for small businesses.

Evidence from a 2025 survey highlights the growing challenges small businesses face in getting bank credit. The Kansas City Federal Reserve's Small Business Survey reports that more and more firms are facing unfavorable loan terms and difficulty obtaining bank loans, reflecting growing concerns (Harbour & Jamison, 2025). Firms with weak, low-quality financial reporting are especially vulnerable to this trend. As uncertainty persists and grows, lenders will continue to rely heavily on financial statements to assess bank loan applications. These patterns reinforce the role of financial reporting quality in bank credit access, particularly post-2020.

Rising Interest Rates and Financial Reporting Significance

Rising interest rates have had a hefty impact on small-business lending decisions. Higher rates have made lenders rely more on financial reporting, especially cash flow statements (KPMG, 2022). When borrowing costs go up, cash flow problems become more serious for small firms. Because of this, lenders want financial statements that are accurate, clear, and up to date to judge if firms can handle higher debt payments.

As rates keep rising, good financial reporting is even more important for small businesses looking for bank loans. Research also explains that lenders consider a small firm's interest rate risk when choosing between fixed- and variable-rate loans (Cowling & Wong, 2024). Clear financial statements help lenders see how a firm's cash flow might change with interest rates. Poor reporting makes this harder and raises the risk in the eyes of lenders. In brief, strong financial reporting helps small businesses get loans and affects the types of loans they receive.

Financial Reporting Quality as a Screening Tool

After 2020, financial reporting quality has become a more important tool for banks when deciding on small-business loans. Federal Reserve reports suggest that banks are increasingly relying on financial statements amid ongoing economic uncertainty (Board of Governors of the Federal Reserve System, 2022). As lenders become more cautious, they prefer borrowers with strong financial reporting, seeing them as less risky. Businesses with weak financial reporting still face more loan denials and worse loan terms. This indicates how important financial reporting quality is for both approval and better loan terms.

Shifts in Small-Business Lending

Rather than a temporary change, the post-2020 changes look to have changed small-business lending for good. Prior research suggests a shift towards a more data-driven credit assessment through financial reporting (Russo et al., 2024). Advances in credit analytics have reduced the need to have established bank relationships. As this way of assessment becomes more common, the need for high-quality financial reporting will continue to grow in importance for small businesses. These changes prove the need for quality financial reporting in bank loan applications.

Section Insights

In summary, post-2020, the U.S. small-business lending environment is associated with an increase in reliance on financial reporting. The existing literature was shared to explain a return to conservative lending practices following the COVID-19 pandemic. Respectively, it is imperative that small businesses maintain

high-quality financial reporting. Firms that fail to do so will struggle to get loan approval. These observations align with themes explored in the literature-based analysis.

LITERATURE-BASED ANALYSIS

Building on prior literature and the post-2020 context, the following will analyze how financial reporting quality affects bank credit outcomes for small businesses in the U.S. Existing research indicates that as lending standards have become stricter, banks have placed greater emphasis on financial information. Differences in borrower characteristics and bank market structure shape how financial reporting quality influences lending decisions, especially for small firms with limited collateral or non-existent bank relationships. Preceding will be a synthesis of financial reporting quality impacts on small enterprises' reliance on bank credit versus other sources of financing.

Financial Reporting Quality and Loan Approval Outcomes

Prior research consistently shows that financial reporting quality plays an important role in whether small businesses receive bank loan approval, especially post-2020. Studies examining small businesses find that firms with clear, accurate, and complete financial statements are far more likely to have their loan applications approved. Firms with unclear, inaccurate, and incomplete financial statements are more likely to have their loan applications denied (Ciza et al., 2025; Corredera-Catalán et al., 2021). When lenders can easily understand a firm's financial situation, they can make informed decisions on loan applications. It is clear that financial reporting quality has a significant impact on small firms' ability to get bank credit.

Since 2020, this impact has increased due to stricter lending conditions. Substantial evidence indicates that banks have become more selective in their loan applications. Banks have increasingly relied on financial statements in their loan underwriting (Board of Governors of the Federal Reserve System, 2022; Harbour & Jamison, 2025). Since the economic uncertainty from the COVID-19 pandemic has lingered, banks are less willing to take risks in their loan approvals. Instead, lenders prioritize borrowers who can prove they are a safe bet through their financial information. It is clear that post-2020, it is important for firms to have high-quality financial reporting.

Financial Reporting Quality and Interest Rate Setting

Financial reporting quality also affects the interest rates banks charge small businesses. Prior research unveils that firms with low-quality financial reporting are charged higher interest rates to make up for the increased risk (Cassar et al., 2015; Kalezić & Fabris, 2019). When financial reporting quality is poor, lenders protect themselves by charging higher interest rates; when financial reporting quality is good, banks tend to offer reasonable interest rates. This relationship determines that financial reporting quality does not just affect loan access; it also affects loan cost.

Since 2020, the relationship between financial reporting quality and interest rates has grown. When facing uncertainty, lenders tend to rely more heavily on a firm's financial information to make lending decisions (Lu et al., 2024). As a consequence, those with better-quality financial reporting are more likely to be approved with more favorable terms than those with lower-quality financial reporting. Financial reporting quality, therefore, plays an important role in interest rate determination.

Differences Among Lenders and Borrowers

The impact of financial reporting quality on lending outcomes varies among banks and borrower types. Research on bank market power suggests that banks in highly competitive markets tend to rely more on financial reporting when making loan decisions (Mi et al., 2024). Banks with greater competition need more efficient ways to evaluate bank applications, making financial reporting quality more important. Banks with less competition tend to rely more on relationship lending, making financial reporting quality less important. This variation explains why financial reporting quality does not affect all borrowers in the same way.

For small firms with limited collateral or non-existent bank relationships, financial reporting quality is even more important. When small businesses lack bank relationships or sufficient collateral, banks rely more heavily on their financial statements (Cassar et al., 2015). For these firms, high-quality financial reporting can substitute for the lack of collateral or bank relationships. Enterprises with poor-quality financial reporting and a lack of collateral or bank relationships are more likely to be denied bank credit. This bolsters the need for quality financial reporting for U.S. small businesses.

Alternative Financing

When small businesses are denied access to bank credit, they often turn to alternative financing, such as trade credit. Prior research reports that firms with low-quality financial reporting are more reliant on trade credit as opposed to firms with high-quality financial reporting (Palacín-Sánchez et al., 2021). Trade credit, as defined by Ward (2026), occurs when a business purchases goods from another business and defers payment to a later date (with interest). Although trade credit can help small businesses out in the short term, in the long run, it is more costly than bank credit. By improving financial reporting quality, firms could save money by being able to get bank credit rather than depend on trade credit.

Analysis Summary

The research presented suggests that financial reporting quality has played a major role in bank credit allocation to U.S. firms since 2020. The overarching theme is that firms with high-quality financial reporting are more likely to be approved for loans at lower interest rates. Firms with low-quality financial reporting are more likely to be denied bank credit. Stricter lending terms have increased lenders' reliance on firms' financial information. Small firms that invest in quality, transparent, and accurate financial reporting are better able to obtain loans with favorable terms. In the following section, the implications of financial reporting quality for small business owners, lenders, and lawmakers will be discussed.

SYNTHESIS OF THE LITERATURE

This synthesis integrates the existing research to find recurring findings, mixed and underexplored areas, and separates post-2020 and general findings. By combining evidence from accounting and finance research, this synthesis explains how financial reporting quality affects loan outcomes for small U.S. firms. This overview sets the stage for discussing the implications for stakeholders.

What the Literature Consistently Supports

The literature consistently supports that high-quality financial reporting improves small businesses' access to bank credit and leads to more favorable terms. Across accounting and finance studies, firms with clear, accurate, and transparent financial statements experience higher approval rates, lower interest rates, and less restrictive covenants. In addition, findings show that lenders rely heavily on financial statements when assessing repayment ability, especially for borrowers with higher perceived risk or nonexistent bank relationships. These findings indicate that financial reporting quality reduces information asymmetry, improves approval rates, and lowers interest rates on small business loans. This consistent evidence establishes financial reporting quality as a foundational piece for small-business lending outcomes and provides a standard against which post-2020 changes can be evaluated.

Mixed and Underexplored Areas in the Literature

Despite strong consensus on the importance of financial reporting quality, the literature presents mixed findings regarding its interaction with alternative risk-mitigation mechanisms and leaves several areas underexplored. Some studies suggest that collateral, relationship lending, and bank market power can partially substitute for low-quality financial reporting, while others find that financial reporting quality remains important even when these substitutes are present. Additionally, many studies examine loan approval and interest rates separately rather than together. These mixed findings imply that the role of financial reporting quality depends on context and is influenced by borrower characteristics and bank

behavior. The lack of integrated study of loan approval and interest rates limits the understanding of how lenders assess credit risk. These gaps highlight the need for a synthesis that combines approval and pricing decisions, focusing on small U.S. firms.

Post-2020 Versus General Findings

While the relationship between financial reporting quality and lending outcomes is well established, post-2020 evidence indicates that this relationship has intensified in the U.S. small business lending environment. Post-2020 studies document tighter lending standards following the expiration of pandemic-era programs, rising interest rates, and increased lender aversion. These findings suggest that economic uncertainty amplifies lenders' reliance on financial statements. Compared to before 2020, when financial reporting quality was one of several determinants, post-2020 lending places a greater emphasis on financial reporting quality. This shift underscores the need for small businesses to have high-quality financial reporting after the COVID-19 pandemic.

Integrated Synthesis

Overall, financial reporting quality is paramount in small-business lending outcomes in the U.S post-2020. The research presented consistently links high-quality financial reporting to higher loan approval rates and lower interest rates, particularly after 2020. These findings show that high-quality financial reporting reduces information asymmetry and can substitute for collateral and relationships. These conclusions lead to the discussion of the implications of financial reporting quality on stakeholders.

IMPLICATIONS FOR STAKEHOLDERS

These patterns affect multiple stakeholder groups, including small business owners, lenders, and lawmakers. Small business owners need to ensure they have high-quality financial statements to improve their odds of securing bank credit, and lenders need small businesses to produce high-quality financial statements to aid their lending decisions. Lawmakers have a hand in all of this by setting rules and regulations that affect small-business lending and lending as a whole. By understanding the people behind small business lending, the reader can see the direct impact that lending decisions have on those involved. An explanation of how these parties are affected by small business lending will be discussed next.

Implications for Small Business Owners

Financial reporting quality has direct effects on small business owners seeking bank credit. Prior research from Angela and Aryancana (2017) shares that high-quality financial reporting improves access to bank credit by making their net present value (NPV) projects more visible to investors. Additionally, a firm's creditworthiness and plans for the funds can influence loan approval decisions (Bank of America, 2025). Clear and reliable financial information helps small firms demonstrate their creditworthiness, reducing lender uncertainty. When reporting quality is poor, lenders may view a firm as being risky, leading to lower approval rates. This elucidates the importance of firms having high-quality financial reporting.

As previously mentioned, financial reporting quality affects credit terms. Angela and Aryancana (2017) also share that firms with better financial reporting tend to get better loan terms. Accurate reporting allows lenders to better assess credit risk, which, in turn, reduces uncertainty and lowers interest rates. Taken together, the evidence signals that financial reporting quality materiality influences credit access for small firms.

Implications for Lenders

Financial reporting quality remains an essential screening tool for lenders in their loan decisions through risk assessment and creditworthiness. Research on financial oversight manifests that effective committee oversight is associated with increased financial reporting quality (Chronopoulos, 2023). High-quality financial reporting enhances a bank's ability to assess potential borrowers, reducing the need for

harsh credit terms that may limit lending. Undoubtedly, banks benefit from clear and accurate financial reporting as it supports more confident lending decisions.

Implications for Lawmakers

The findings also affect those who set policies for small business lending. Angela and Aryancana (2017) note that higher-quality financial reporting reduces constraints and suggest that reporting standards play a role in this. Laws and regulations that promote financial literacy and high-quality reporting can help small firms improve their financial statements, thereby increasing their loan approval odds. Also, improved financial reporting can reduce information asymmetry and the need for government intervention. Certainly, lawmakers can play a role in supporting small business lending.

LIMITATIONS OF THIS LITERATURE REVIEW AND AREAS FOR FUTURE RESEARCH

Even though this piece of literature provides a lot of information about small-business lending in the U.S. after 2020, it has some limitations. For example, as a limitation, no original studies were conducted, and an area for further research is the use of actual firm data. By recognizing the shortcomings of this report, one could produce another paper that can provide more to the accounting field. The field of accounting provides endless opportunities for research.

Limitations

This research evaluation has limitations that need to be considered. The writing is based on existing research and reports; no original research or studies were conducted. The findings present patterns found in prior research rather than through direct testing. The consistency of the findings may also be affected by the study designs, sample selection, and geographic focus of the reviewed literature. These factors limit the ability to generalize the findings to all U.S. small businesses and lenders.

Another limitation includes the consistency of measuring financial reporting quality. Across several studies and reports, the factors considered to comprise financial reporting quality varied (Angela & Aryancana, 2017; Costello & Wittenberg-Moerman, 2011; Donelson et al., 2017; Kalezić & Fabris, 2019). Some factors considered include earnings quality, disclosure detail, internal control strength, and accounting method choice. These variations make it difficult to compare results across the different studies. With that, the findings should be seen as broad relationships rather than precise.

Areas for Future Research

Future research could strengthen understanding of the relationship between financial reporting quality and small-business lending by using firm-level data, as Anagnostopoulou (2017) did. By doing so, studies could directly test the effect of financial reporting quality on loan approval and interest rate decisions in the U.S. Such data would allow researchers to isolate the effects of financial reporting quality from other borrower characteristics. This approach could also clarify whether reporting quality has a stronger or weaker influence on approval decisions and interest rates. Empirical analysis would therefore complement the literature-based findings of this report.

Additional research could also examine how financial reporting quality interacts with alternative lending technologies as explored by Jagtiani and Lemieux (2019). The growing use of fintech and automated credit score systems may change how lenders value financial statements, as these systems could reduce reliance on financial information. Understanding this would provide valuable insight into the future role of financial reporting quality in small-business lending.

Overview of Limitations and Areas for Future Research

Despite the limitations, this work synthesized existing research on financial reporting quality and small-business lending in the U.S. since 2020. The literature reviewed showed a relationship between financial reporting quality and loan outcomes. The limitations of this literature review also illustrate where more

research is needed. Together, these findings support a more informed understanding of financial reporting quality in the small-business lending industry.

CONCLUSION

This analysis set out to examine how financial reporting quality has influenced bank credit allocation and interest rates in the U.S. since 2020. Drawing on existing research, this examination concludes that there is a significant relationship between financial reporting and bank credit allocation, particularly regarding approval rates and interest rates. Since 2020, heightened uncertainty has increased lenders' reliance on financial statements in making their lending decisions. Consequently, firms with high-quality financial statements experienced higher approval rates and lower interest rates, while firms with low-quality financial statements experienced lower approval rates and higher interest rates. These findings directly answer the research questions and emphasize the importance of financial reporting quality.

These findings have several implications for stakeholders. For small-business owners, investing time and effort into making quality financial statements is worthwhile. This is because they can access bank credit more easily and cheaply. For lenders, receiving high-quality financial statements makes it easier to assess creditworthiness, enabling them to make confident lending decisions.

Although this paper has limitations, it still greatly benefits the field of accounting by demonstrating the relationship between financial reporting quality and lending outcomes for small businesses in the U.S. By recognizing the role of reporting quality, it helps explain why some small businesses struggle to obtain bank credit. The research evaluation also highlights the role lawmakers can play in this topic. Principally, financial reporting quality has a significant impact on small U.S. businesses' ability to obtain bank credit since 2020.

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