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# Financing and Access to Quality Credit for Small Business Owners of Color

**Kersy Azocar**

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# Before we begin

**B**efore and **A**fter the Pandemic

All information reflects specific experiences

Some data may differ from speaker based on sources

Not endorsing any particular company, service or organization



*There are many varieties and colors of apples. They are still apples.*

# What the data says

1

Businesses with fewer than 5 employees make up 62% of all US Businesses, and businesses with fewer than 20 employees make up 89% of All US Businesses

2

The pandemic has disproportionately affected Latinx and immigrant-owned businesses mainly by the sectors in which they operate, that are more prevalent in accommodation and food services (experienced the greatest net job losses)

3

Immigrants accounted for 29% of all new entrepreneurs in 2017 (Fairlie, Desai and Hermann 2019)

4

Firms owned by people of color were more likely to report that they reduced business operations in response to the COVID-19 pandemic.

5

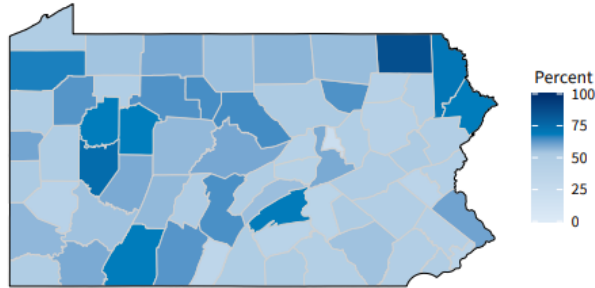
Women make up the majority of the essential workforce in America, putting them more at risk. 83% of women report significant increase in depression.

# 2021 Small Business Profiles





## Pennsylvania

**1.1 million** small businesses  
**99.6 percent** of Pennsylvania businesses

**2.5 million** small business employees  
**46.3 percent** of Pennsylvania employees



### Small business count by size and industry

Industry	   			
	No employees	1-19 employees	20-499 employees	All small businesses
Professional, Scientific, and Technical Services	125,164	24,044	2,507	151,715
Construction	93,947	24,395	2,201	120,543
Other Services (except Public Administration)	82,743	31,482	2,072	116,297
Retail Trade	81,853	21,861	2,754	106,468
Real Estate and Rental and Leasing	96,046	7,013	550	103,609
Health Care and Social Assistance	65,295	18,922	4,305	88,522
Transportation and Warehousing	80,172	5,853	1,128	87,153
Administrative, Support, and Waste Management	67,179	11,426	1,657	80,262
Arts, Entertainment, and Recreation	51,690	3,798	762	56,250
Accommodation and Food Services	14,834	18,448	4,531	37,813
Finance and Insurance	26,189	7,879	770	34,838
Educational Services	30,913	2,441	918	34,272
Manufacturing	14,094	8,041	3,394	25,529
Wholesale Trade	13,315	8,148	2,149	23,612
Information	10,690	1,979	471	13,140
Agriculture, Forestry, Fishing and Hunting	8,434	503	23	8,960
Mining, Quarrying, and Oil and Gas Extraction	1,918	511	168	2,597
Management of Companies and Enterprises	*	133	615	748
Utilities	565	132	45	742
Industries not classified	*	233	0	233
<b>Total</b>	<b>865,041</b>	<b>197,013</b>	<b>29,470</b>	<b>1,091,524</b>

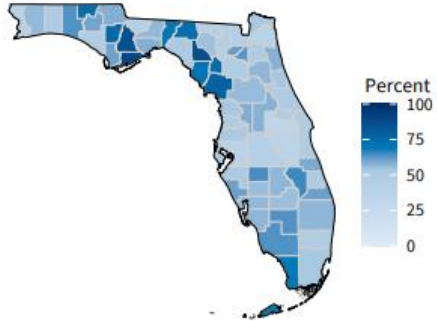
Self-Employed Business owners often struggle to grow

Business with no Employees represent **79%** of all Small Businesses





# Florida

**2.8 million** small businesses  
**99.8 percent** of Florida businesses

**3.6 million** small business employees  
**41.1 percent** of Florida employees



## Small business count by size and industry

Industry	   			
	No employees	1-19 employees	20-499 employees	All small businesses
Professional, Scientific, and Technical Services	287,097	71,320	3,506	361,923
Other Services (except Public Administration)	295,154	42,552	2,715	340,421
Administrative, Support, and Waste Management	302,863	30,339	2,784	335,986
Real Estate and Rental and Leasing	288,783	30,851	982	320,616
Construction	226,643	51,438	4,246	282,327
Transportation and Warehousing	250,936	12,577	1,167	264,680
Health Care and Social Assistance	203,416	43,794	4,728	251,938
Retail Trade	158,623	43,841	3,084	205,548
Arts, Entertainment, and Recreation	97,312	7,293	1,085	105,690
Finance and Insurance	71,931	17,247	1,100	90,278
Accommodation and Food Services	42,374	24,159	7,701	74,234
Wholesale Trade	40,956	23,142	2,636	66,734
Educational Services	54,011	5,439	1,167	60,617
Manufacturing	25,497	9,977	2,092	37,566
Information	25,881	4,662	556	31,099
Agriculture, Forestry, Fishing and Hunting	14,709	1,013	66	15,788
Utilities	983	247	44	1,274
Mining, Quarrying, and Oil and Gas Extraction	881	129	31	1,041
Management of Companies and Enterprises	*	385	629	1,014
Industries not classified	*	660	4	664
<b>Total</b>	<b>2,388,050</b>	<b>420,822</b>	<b>38,927</b>	<b>2,847,799</b>

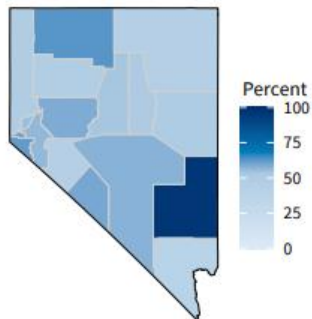
\* Not reported by the Census Bureau

Sources: [Nonemployer Statistics](#), 2018 (Census); [Statistics of US Businesses](#), 2018 (Census)

# Nevada

**297,183** small businesses  
99.2 percent of Nevada businesses

**523,771** small business employees  
42.9 percent of Nevada employees



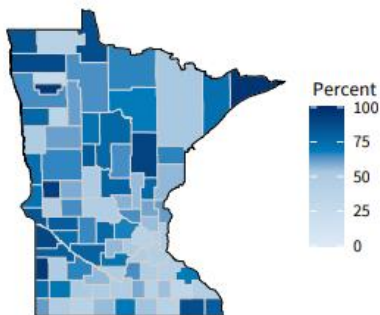
## Small business count by size and industry

Industry	No employees	1-19 employees	20-499 employees	All small businesses
Professional, Scientific, and Technical Services	34,383	7,809	591	42,783
Real Estate and Rental and Leasing	31,150	3,523	224	34,897
Transportation and Warehousing	32,412	1,058	241	33,711
Other Services (except Public Administration)	29,126	3,901	318	33,345
Retail Trade	20,848	4,161	612	25,621
Administrative, Support, and Waste Management	20,660	3,363	554	24,577
Health Care and Social Assistance	17,627	5,280	752	23,659
Arts, Entertainment, and Recreation	17,729	1,220	242	19,191
Construction	12,968	4,111	839	17,918
Finance and Insurance	8,063	2,157	219	10,439
Accommodation and Food Services	3,992	3,415	1,253	8,660
Wholesale Trade	3,729	1,896	528	6,153
Educational Services	4,907	617	147	5,671
Information	3,696	789	102	4,587
Manufacturing	2,732	1,239	412	4,383
Agriculture, Forestry, Fishing and Hunting	876	50	6	932
Mining, Quarrying, and Oil and Gas Extraction	393	111	28	532
Management of Companies and Enterprises	*	101	128	229
Utilities	90	26	13	129
Industries not classified	*	94	1	95
<b>Total</b>	<b>245,381</b>	<b>44,874</b>	<b>6,928</b>	<b>297,183</b>

# Minnesota

**533,344** small businesses  
99.5 percent of Minnesota businesses

**1.3 million** small business employees  
46.2 percent of Minnesota employees



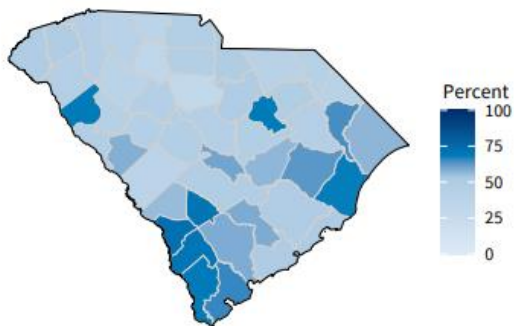
## Small business count by size and industry

Industry	No employees	1-19 employees	20-499 employees	All small businesses
Professional, Scientific, and Technical Services	63,251	14,138	1,086	78,475
Construction	39,949	15,513	1,027	56,489
Other Services (except Public Administration)	38,243	13,350	1,167	52,760
Retail Trade	40,307	9,888	1,349	51,544
Real Estate and Rental and Leasing	45,833	5,404	299	51,536
Transportation and Warehousing	39,987	3,567	558	44,112
Health Care and Social Assistance	29,688	8,041	2,288	40,017
Administrative, Support, and Waste Management	29,335	5,796	697	35,828
Arts, Entertainment, and Recreation	32,309	2,474	353	35,136
Finance and Insurance	12,803	5,156	515	18,474
Educational Services	15,056	1,362	444	16,862
Accommodation and Food Services	4,918	6,183	2,423	13,524
Manufacturing	7,418	4,320	1,701	13,439
Wholesale Trade	6,139	4,587	1,162	11,888
Information	5,493	1,208	254	6,955
Agriculture, Forestry, Fishing and Hunting	5,353	535	26	5,914
Management of Companies and Enterprises	*	90	359	449
Utilities	237	49	47	333
Mining, Quarrying, and Oil and Gas Extraction	168	100	17	285
Industries not classified	*	176	0	176
<b>Total</b>	<b>416,487</b>	<b>101,857</b>	<b>15,000</b>	<b>533,344</b>

# South Carolina

**445,804** small businesses  
99.4 percent of South Carolina businesses

**830,094** small business employees  
43.6 percent of South Carolina employees



## Small business count by size and industry

Industry	No employees	1-19 employees	20-499 employees	All small businesses
Other Services (except Public Administration)	50,344	10,074	775	61,193
Professional, Scientific, and Technical Services	43,923	9,151	700	53,774
Construction	39,722	9,076	881	49,679
Administrative, Support, and Waste Management	42,297	4,387	598	47,282
Real Estate and Rental and Leasing	42,242	4,562	229	47,033
Retail Trade	31,634	9,097	931	41,662
Health Care and Social Assistance	26,118	6,495	1,233	33,846
Transportation and Warehousing	24,169	1,798	306	26,273
Arts, Entertainment, and Recreation	18,362	1,282	285	19,929
Accommodation and Food Services	6,962	5,659	2,211	14,832
Finance and Insurance	10,533	2,961	244	13,738
Educational Services	10,898	874	236	12,008
Wholesale Trade	5,280	2,770	697	8,747
Manufacturing	4,520	2,092	914	7,526
Information	3,686	592	110	4,388
Agriculture, Forestry, Fishing and Hunting	3,026	491	42	3,559
Utilities	171	63	31	265
Management of Companies and Enterprises	*	44	190	234
Industries not classified	*	152	0	152
Mining, Quarrying, and Oil and Gas Extraction	84	35	8	127
<b>Total</b>	<b>363,971</b>	<b>71,600</b>	<b>10,233</b>	<b>445,804</b>



# What do Small and Micro Businesses Need

There are different needs based on **Business Size and Stage** (Pre-Start up, Start up, Growth, Expansion, Maturity)

Immigrant face Unique challenges:

- ❖ Linguistic and cultural barriers
- ❖ Limited knowledge of Technology (Website, online sales, marketing)
- ❖ Insufficient access to capital (due to lack of Credit History and limited financial literacy)
- ❖ Limited professional connection and mentorship
- ❖ Limited understanding of local laws and regulations
- ❖ Assistance Navigating Health, Immigration, Political systems
- ❖ Lack of trust in financial and banking systems



# What do Small and Micro Businesses Need

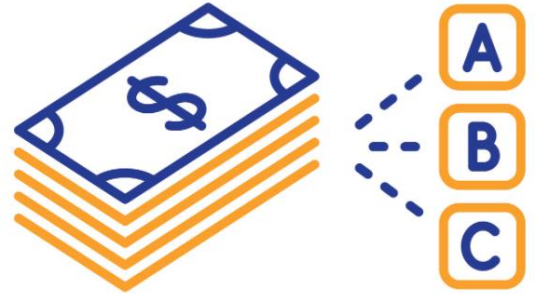
*It's not a secret that Female Entrepreneurs have been severely impacted by COVID-19. Women, especially women of color, own a disproportionately small amount of wealth in the U.S., make less money than white men and face more obstacles than entrepreneurs in general when starting and growing their businesses.*



# Disparities Meeting Needs of Small Businesses

Even though help might be available, small businesses have a hard time meeting certain requirements to qualify for help (grants and programs)

- For example: PPP required a relationship with a lender/Bank
  - Technology
  - Proof of Formation Documents
  - Business Bank Account under Business Name
  - Proof of Payroll for Staff
- Grants vs Loans
  - Confusion with Grants and Loan repayment
  - Documenting Six months of emergency savings
  - Financial Projections
  - Financial statements
  - Online Applications
- Federal programs exclude ITIN (Individual Taxpayer Identification Number) holders



# Traditional Banking Requirements and Challenges

The difficulty in getting a loan stems from a variety of unique challenges facing small business owners that go beyond the prevailing economic climate.

What about **Implicit Bias**?

- Asking for additional requirements/documents
- Making quick judgements about creditworthiness
- Making a loan decision before all documents are submitted (Decline and application abandoned)
- Not disclosing all available programs/services
- Offering higher interest rates/Fees

Character

Capital

Capacity

Conditions

Collateral

# Predatory Loans

Thousands of small businesses and entrepreneurs are denied capital daily and tap into high interest rate debt and predatory lenders that cost more than they can afford.

Some Payday Lenders charge **400%** interest

# Federal SBA Financing Programs - Trends vs Challenges

The **COVID Economic Injury Disaster Loan (EIDL)** program offered by the Small Business Administration (SBA) is a federal loan program designed to help small businesses and nonprofits, recover from the COVID-19 economic recession by providing capital. The program closes on December 31, 2021.

**One of the main benefits are the low interest rates, 30yr repayment and payments can be deferred up to 2 years.**

Other Programs: 7(a), SBA Express Loan, Community Advantage, Microloans, 504 Certified Development Company Loan

National Resource guide: [U.S. Small Business Administration Small Business Resource Guide National Edition Summer 2020 \(sba.gov\)](#)

## Loan Overview

**Maximum loan amount:** Microloans – \$1,000 up to \$25,000; Full loans – \$25,001 to \$2 million.

**Interest rate:** Rates are fixed at 3.75 percent (businesses); 2.75 percent (nonprofits)

**Repayment period:** 30 years

**Deferment:** Up to 24 months

**Collateral requirement:** Microloans – none; Full loans – Yes, if over \$25,000

**Personal guarantee:** Microloans – none; Full loans – Yes, for amounts over \$200,000

**Loan use:** Loan use: Loans can be used to meet normal operating expenses and working capital, prepay or pay commercial debt and make payments on federal business debt, rent, cost of goods sold, and payroll.

# Federal SBA Financing Programs

## CAPLines

Meet your revolving capital needs with lines of credit. CAPLines can be used for contract financing, seasonal lines of credit, builders line of credit, or for general working capital lines.

## SBA Express Loan

Featuring a simplified process, these loans are delivered by experienced lenders who are authorized to make the credit decision for the SBA. These can be term loans or revolving lines of credit.

**MAX LOAN AMOUNT:** \$350,000

**INTEREST RATE:** for loans less than \$50,000, prime + 6.5%; for loans of \$50,000 and greater, prime + 4.75%

**TERMS:** loan term varies according to the purpose of the loan, generally up to 25 years for real estate and 10 years for other fixed assets and working capital

**GUARANTEE:** 50%

## Community Advantage

A financing program for women, veterans, low-income borrowers, and minority entrepreneurs just starting up or in business for a few years. Receive free business counseling as you work with a community-based financial institution.

**INTEREST RATE:** prime + 6%

**TERMS:** up to 25 years for real estate, 10 years for equipment and working capital

**GUARANTEE:** 75 to 90%

## Microloans

Eligible businesses can start up and grow with working capital or funds for supplies, equipment, furniture and fixtures. Borrow from \$500 to \$50,000 and access free business counseling from microlenders.

**INTEREST RATE:** loans less than \$10,000, lender cost + 8.5%; loans \$10,000 and greater, lender cost + 7.75%

**TERMS:** lender negotiated, no early payoff penalty

## 504 Certified Development Company Loan

For those who cannot find traditional financing but would like to purchase/renovate real estate or buy heavy equipment for a small business. It provides competitive fixed-rate mortgage financing through a lender and a certified development company.

**MAX LOAN AMOUNT (UP TO 40% OF THE TOTAL PROJECT):** up to \$5 million; \$5.5 million for manufacturing or energy public policy projects

**INTEREST RATE:** below market fixed rates for 10, 20 or 25 year terms

**TERMS:** 20 or 25 years for real estate or long-term equipment, 10 years for general machinery and equipment

**GUARANTEE:** the lender provides a senior loan for 50% of the project cost (with no SBA guarantee); the CDC finances up to 40% in a junior lien position (supported by the SBA guarantee)

**SPECIAL CONDITION:** a minimum borrower contribution, or down payment, is required. Amounts vary by project but are usually 10%

## The 7(a) Loan, the SBA's Largest Financing Program

If you are unable to qualify for conventional financing and you meet the eligibility requirements, use a 7(a) loan to buy real estate, equipment or inventory for your small business. It may also be used for working capital, to refinance business debt or purchase a small business.

**MAX LOAN AMOUNT:** \$5 million

**INTEREST RATE:** generally prime + a reasonable rate capped at 2.75%

**TERMS:** loan term varies according to the purpose of the loan, generally up to 25 years for real estate, 10 years for other fixed assets and working capital

**GUARANTEE:** 50 to 90%

# Gov. Contracting: Does it reach our small businesses?

The U.S. Federal Government is the largest buyer of products and services in the world.

- Annually, Federal Government buys \$500+ Billion of goods and services
- Congress mandates that 23% of each dollar spent must go to small businesses



# CDFI's Financing Models: Opportunities and challenges

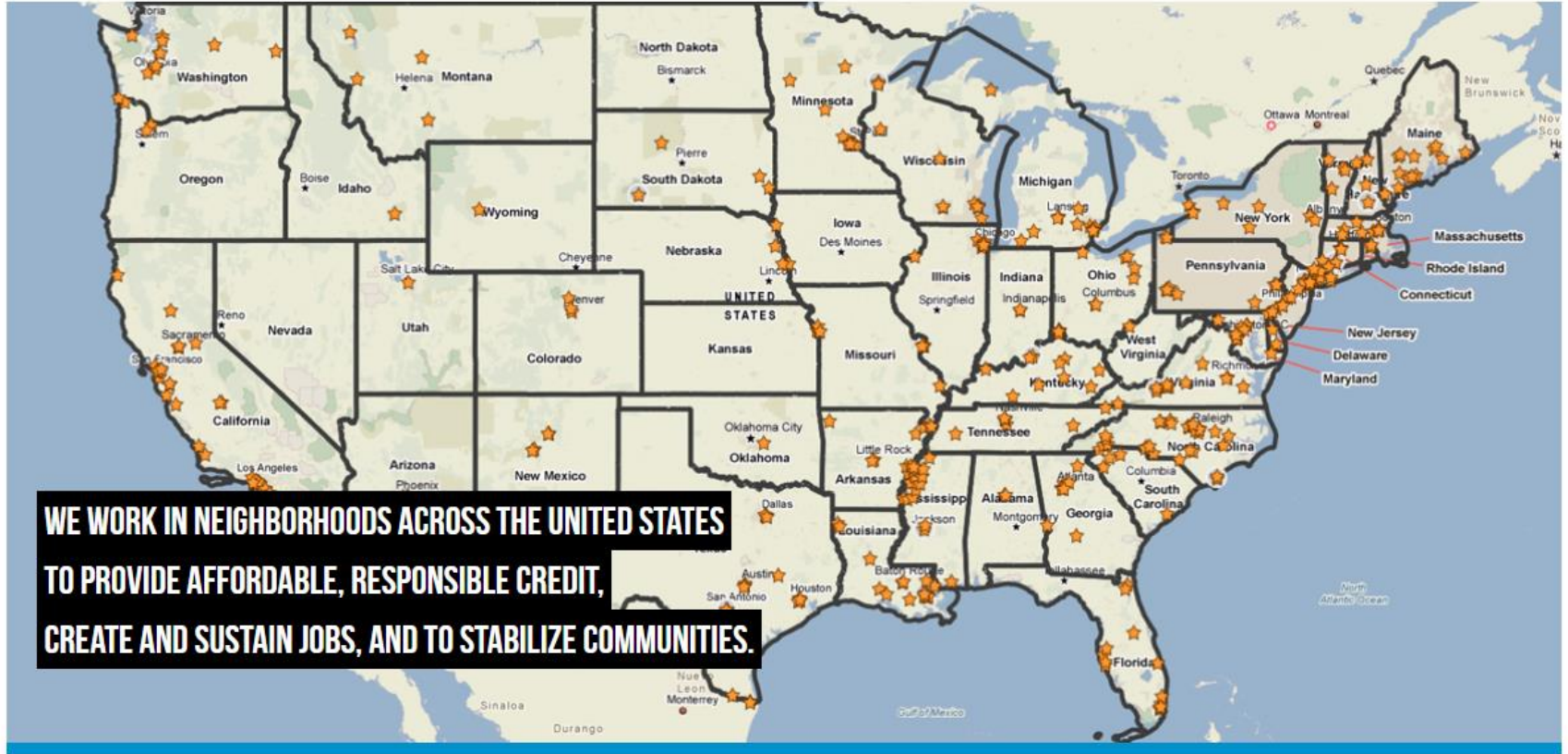
CDFIs are private community lenders dedicated to delivering social and economic impact by providing responsible, affordable financing to people who may not be able to access financial products in their communities.

The **PA CDFI Network** coalition of 17 PA-based CDFIs that primarily provide financing options for small businesses.

- The Network works in all 67 counties in the commonwealth to provide the small business community with access to finance and TA.
- In 2020 the Network was responsible for delivering funds to \$14,500+ small businesses and \$249Million in grants.



# CDFI LOCATOR



# Innovative Small Business Financing and Equity Products

National or International Outreach

## **Grameen America**

Grameen America works with Women Entrepreneurs who live in poverty, to build businesses and enable financial mobility. Grameen Bank, founded in Bangladesh in 1983, holds the distinction of being a Nobel Peace Prize-winning MFI (Micro Finance Institution).

## **Justine Petersen**

CDFI in St. Louis, Missouri, provides services including: credit building and financial education, homeownership preparation and retention, and micro-enterprise lending and training.

## **Kiva**

Founded in 2005, Kiva is a nonprofit MFI (Micro Finance Institution) that operates in the United States and more than 80 other countries worldwide. Kiva's operational method for providing microfinance lending is through establishing a crowdfunding, or peer-to-peer (P2P) lending platform that allows individuals to lend directly to borrowers in other countries who lack access to traditional financing sources.

## **LiftFund**

Founded in San Antonio, Texas as Accion to create opportunity to underserved entrepreneurs. During their first year, supported over 80 small businesses, avg loan size \$1,400. In 2019 reached 324Million in capital and in 2020 41Million in Capital and 41Million in Grants

## **Case study**

### **Challenges**

- New Industry /No experience in the field
- Startup (less than 6-months in Business)
- Limited Capital

Lorena owner of Multi-Service business wanted to expand into the Healthcare industry and open a Homehealth Care Business.

### **Opportunity**

**Obtained** \$25,000 Start up Loan from CDFI and a \$10K grant  
Home Health Care was open and quickly became a success

### **Result**

- In the second year the business grossed \$3Mill and \$5Mill in the third year
- Lorena has been able to provide a better life to her family and create an impact in the community

# Innovative Small Business Financing: the Pillars of Character-Based Loans

1

## Trust

Transparency, treating clients with respect regardless of the loan size, develop rapport and empathy

2

## Understanding "real" Financial Picture

UW is not completed until a thorough understanding of the client's financial situation is completed. Where the money is coming and where is going

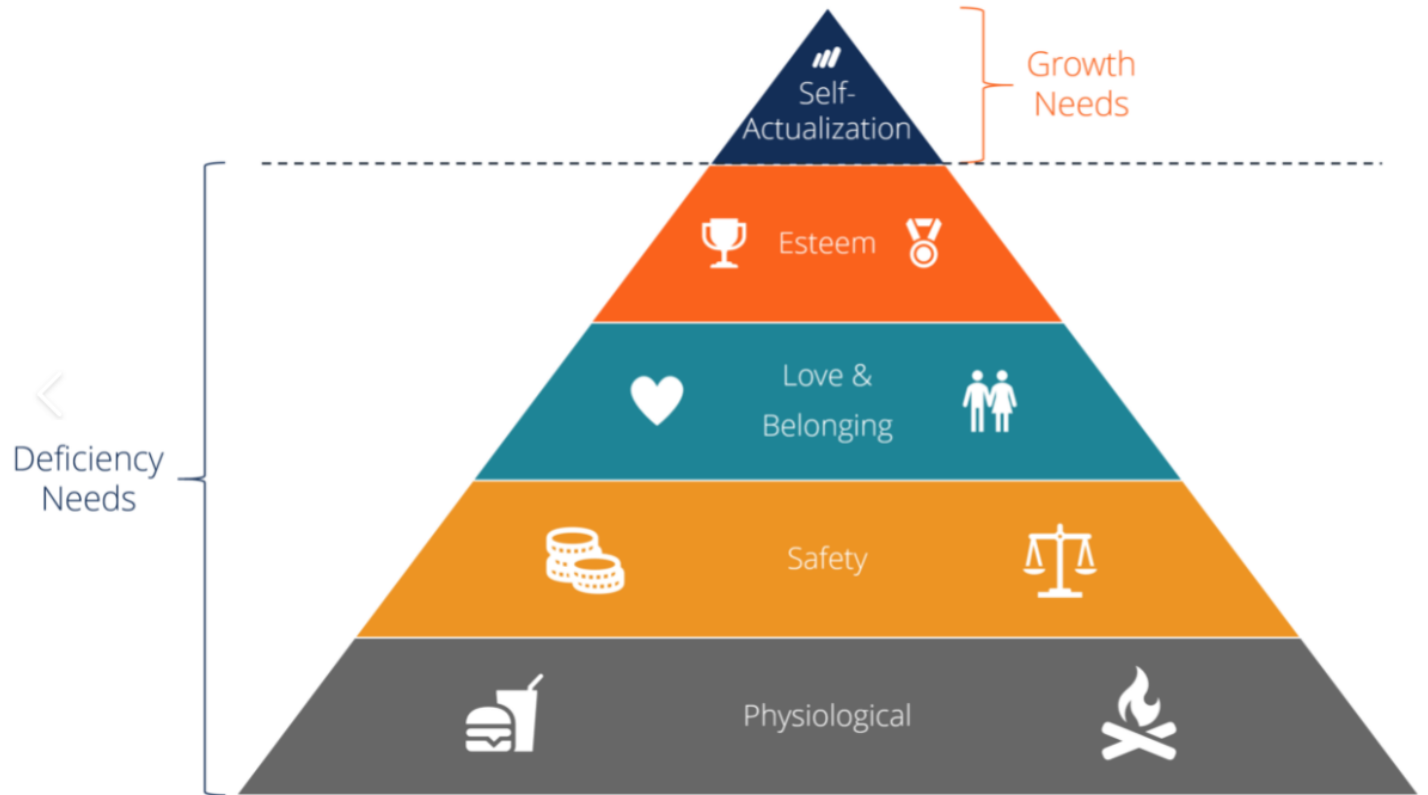
3

## Setting up Expectations

Understanding of urgency of funds. Client must always have deep understanding of reasons for decline. Transparency of loan terms. Collateral requirements, loan conditions and post-closing conditions.

# And... never forget a holistic approach to small biz needs

Maslow's  
Hierarchy of  
Needs!



# Resources

- Widener SBDC – English /Spanish [Tools & Resources – SBDC \(widenersbdc.org\)](https://www.widenersbdc.org)
- SBA [Learning Center Dashboard \(sba.gov\)](https://www.sba.gov/learning-center)
- SBA ASCENT / A free learning platform for Women Entrepreneurs [Homepage \(sba.gov\)](https://www.sba.gov/ascent)
- Federal Trade Commission <https://www.ftc.gov/>
- Consumer Financial Protection Bureau – <https://www.consumerfinance.gov/>
- My Money.gov / <https://www.mymoney.gov/>

Annual Credit Report / [Annual Credit Report.com - Home Page](https://www.annualcreditreport.com)

# Thank you

Kersy Azocar

Balance Consulting Group LLC

[Info@BalanceGroupPA.com](mailto:Info@BalanceGroupPA.com)

