

Small Business Credit Survey: Action-Oriented Results

September 5, 2019

Organized by the Federal Reserve Banks of New York and Atlanta

The **Connecting Communities**[®] audio conference series is a Federal Reserve System initiative intended to provide timely information on emerging and important community and economic development topics with a national audience. The audio conference series complements existing Federal Reserve Community Development outreach initiatives that are conducted through our regional Reserve Bank offices and at the Federal Reserve Board of Governors in Washington, D.C.

Welcome

Thank you for attending today's session. How to join (remember, this session is being recorded)

- Call-in number: 888-625-5230
- Conference code: 2715 6403
- Webinar link: <https://www.webcaster4.com/Webcast/Page/584/31440>

You have two options to ask questions today:

**These questions may be part of the recorded archive for this session.*

- Email us at: communities@stls.frb.org.
- Type your question into the chat box of the webinar.

An archived recording of this session will be available on the **Connecting Communities**[®] web site shortly after the session ends. Please visit <https://bsr.stlouisfed.org/connectingCommunities>

In connection with this session, you can find a variety of additional resources on this topic, available at www.fedcommunities.org. We encourage you to browse through this site and to contact your regional office if you would like additional information on any of these items.

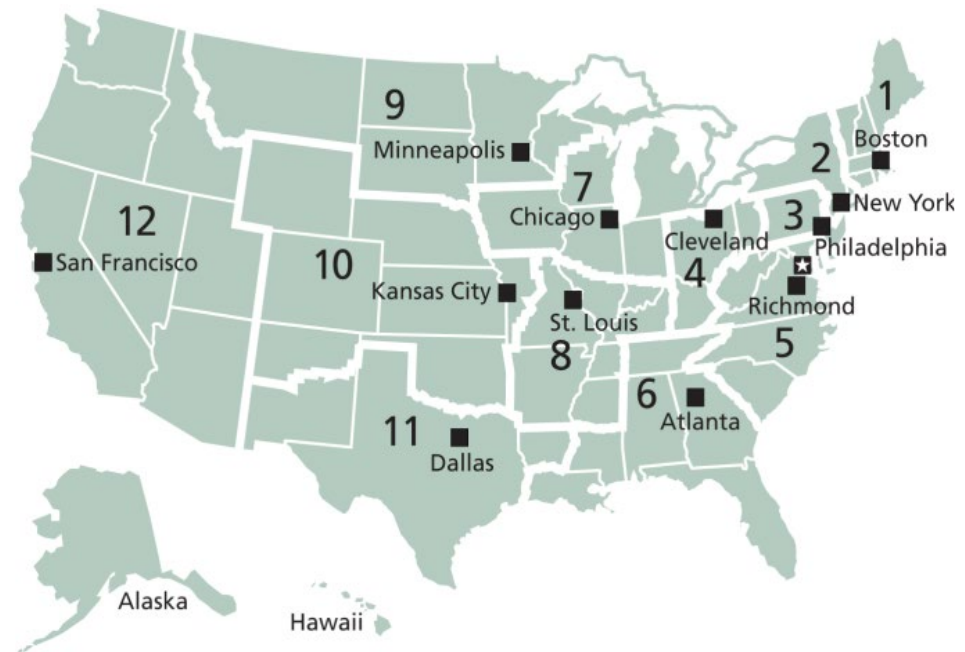
Legal Notices and Disclaimer

The information, analyses, and conclusions set forth are those of the presenters and do not necessarily indicate concurrence by the Board of Governors of the Federal Reserve System, the Federal Reserve Banks, or members of their staffs.

Community Development

The Community Development (CD) function within the Federal Reserve System – consisting of individual departments at each of the 12 Federal Reserve Banks and at the Board of Governors – promotes economic growth and financial stability for low- and moderate-income (LMI) communities and individuals through a range of activities, including:

- **Convening stakeholders**, including practitioners, financial institutions, nonprofits, governmental agencies, and the philanthropic and private sectors
- **Conducting and sharing research** to examine economic challenges facing LMI communities and attendant policy implications; and
- **Identifying emerging issues.**



Today's Presenters

- **Mary Hirt**, Small Business Credit Survey (SBCS) Partner Manager, Federal Reserve Bank of Atlanta
- **Jessica Battisto**, Senior Analyst, Federal Reserve Bank of New York
- **Amir Kirkwood**, Chief Financial Officer, Opportunity Finance Network
- **Lance Loethen**, Vice President, Research, Opportunity Finance Network (OFN)
- **Joyce Klein**, The Aspen Institute, Director, Business Ownership Initiative

Today's Agenda

- The following will be discussed:
 - Overview of the SBCS
 - Customized intelligence and tools for partners
 - Value to community-based lenders
 - Value to advocates and policymakers
 - How to become a partner

SBCS Overview

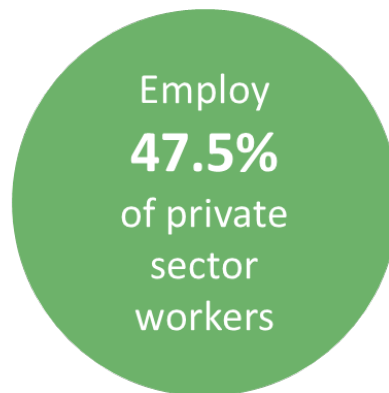
Mary Hirt

**SBCS Partner Manager
Federal Reserve Bank of Atlanta
Mary.Hirt@atl.frb.org**



Why the Fed's CD Offices Field the Survey

Small businesses are important to the U.S. economy.



Source: U.S. Small Business Administration Office of Advocacy, 2018 Frequently Asked Questions About Small Business

Features of the Small Business Credit Survey

Responses from:
50 states

National network of:
300 partners

Survey length:
10-12 mins

The respondents:
6,000 employer firms
6,000 non-employer firms



Includes information about:

- Minority-owned businesses
- Women-owned businesses
- Veteran-owned businesses
- 50+ entrepreneurs
- Micro businesses

Unique Survey Model: Partner Network



Tools for Partners

Jessica Battisto

**Senior Analyst, Outreach & Education
Federal Reserve Bank of New York**

Jessica.Battisto@ny.frb.org



Interactive Data Reports for Partners

About Sample Organization

Total SBBS Responses from Sample Organization: 200

Map of Sample Organization Responses by County

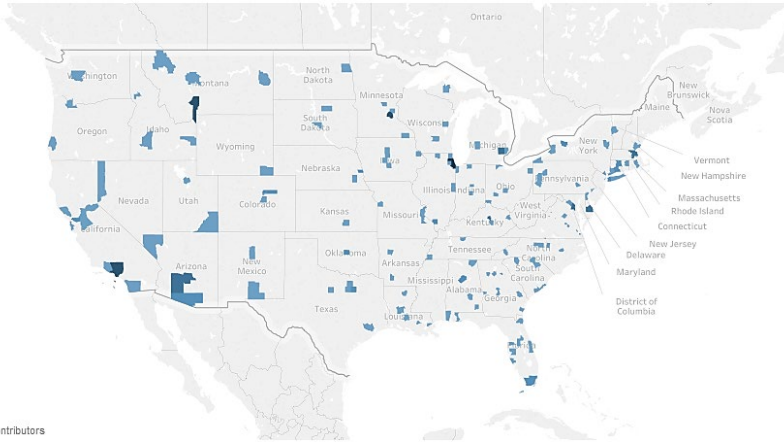
Select a State to Zoom In:

(All)

Filter by the Number of Responses in Each County:

1

6



© OpenStreetMap contributors

Sample Organization Funding Needs and Outcomes



Source: 2018 Small Business Credit Survey, Federal Reserve Banks

Financing Applications, Overview (Prior 12 Months):

Sample Organization Compared to United States

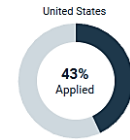
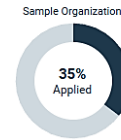
Select Applicants or Nonapplicants to Learn More:

Nonapplicants

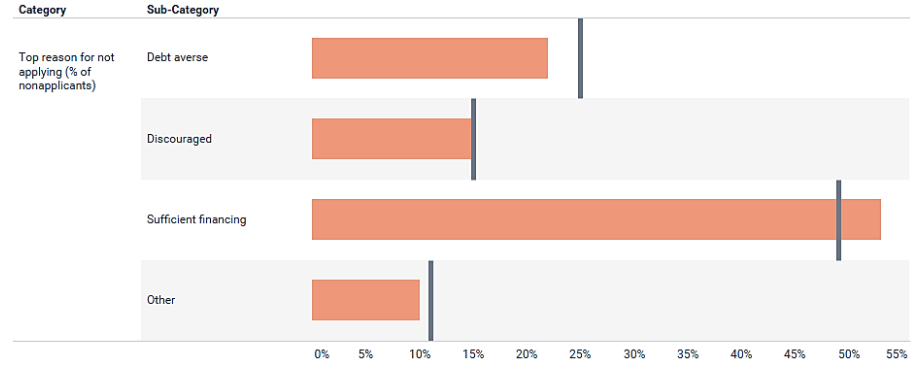
Select the Geography (U.S. or State) You Would Like to Compare to:

United States

Demand for Financing, Prior 12 Months



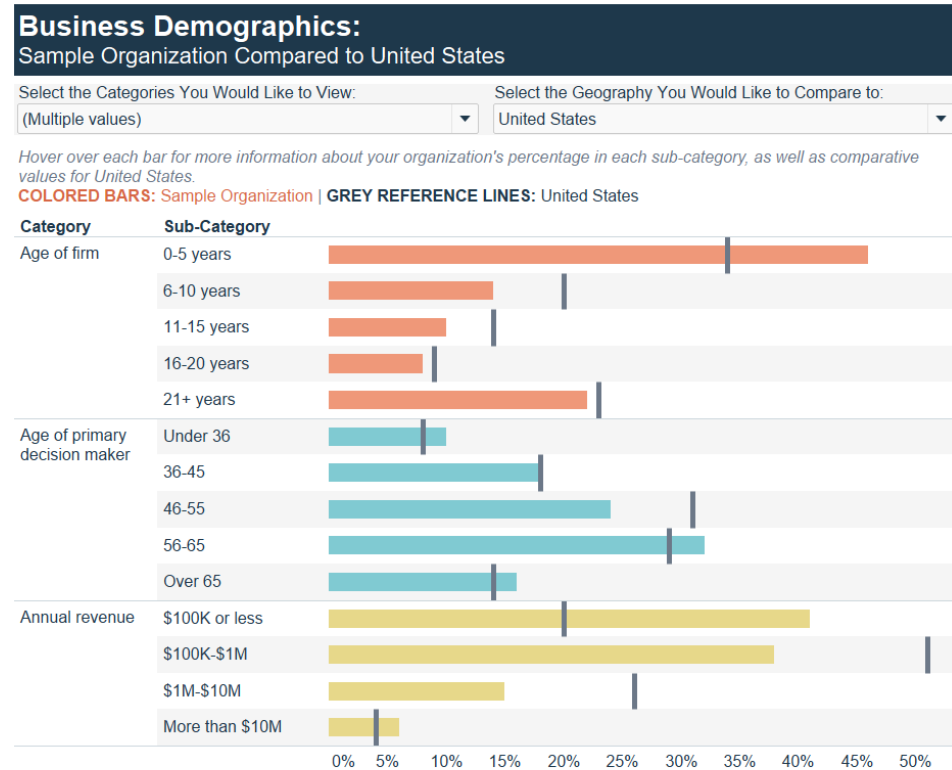
Hover over each bar for more information about your organization's percentage in each sub-category as well as comparative values for United States.
COLORED BARS: Sample Organization | GREY REFERENCE LINES: United States



Source: 2018 Small Business Credit Survey, Federal Reserve Banks

Key Features of Interactive Partner Reports

- Map of respondents down to the county
- Insights into:
 - Demographics
 - Performance
 - Financing demand & outcomes
- Compare partner data to the U.S. survey sample or to any state's survey sample



Source: 2018 Small Business Credit Survey, Federal Reserve Banks

Value to Lenders

Amir Kirkwood

Chief Financial Officer

OFN

Akirkwood@ofn.org

Lance Loethen

Vice President, Research

OFN

Lloethen@ofn.org

About Opportunity Finance Network

Our network helps money flow across all 50 states to people and places where traditional finance doesn't reach.

Expand access to capital

- Manages more than \$660 million in financing capital
- On-balance sheet financing fund, Community Development Financial Institutions (CDFI) bond guarantee, off-balance sheet funds, NMTC

Build Strength

- Signature convenings – Annual conference, small business finance forum, Regional Meetings
- Trainings, capacity building, research

Amplify Voice

- Advocates for opportunity finance industry
- Drives message that CDFI investments transform communities

About Opportunity Finance Network cont.

Leading network of CDFIs:

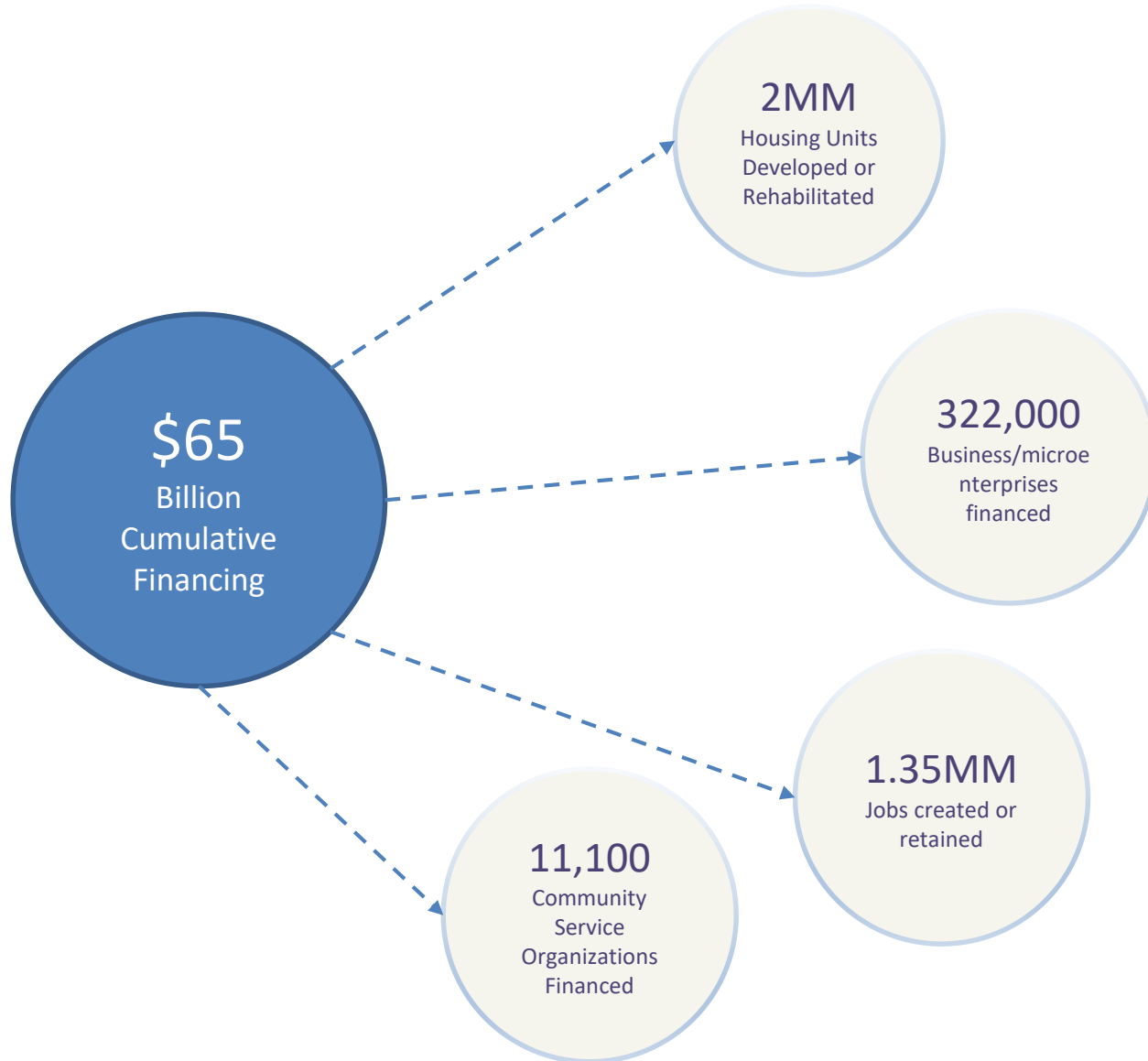
- More than 270 member CDFIs

Opportunity Finance Network Member CDFI HQ Locations as of 5/20/2019



OFN Member Cumulative Impact

(All OFN Members, through Fiscal Year 2017)



Partnership: Money, Strength, and Voice

Advantage of Partnership with OFN:

Broad reach into the CDFI community:

- 272 CDFI relationships and borrowers in all geographies
- Sector-focused engagement (e.g., native, rural, and housing)
- Investments meet UN Sustainable Development Goals

Focus on the network's development:

- 8 regional and national convenings of members
- Regular access to data and research on individual CDFIs and the industry
- Trusted policy voice for CDFIs (CRA reform, CDFI fund, and opportunity zones)

Experienced and scaled financial intermediation:

- Fiduciary of \$660MM AUM to 70+ CDFI
- Source, structure, underwrite and service portfolio
- Low loss performance track record

OFN Financing Principles

Why do we finance CDFIs?

- Ensure that low-income, low-wealth communities have access to affordable, responsible financial products
- Promote best practices in the industry, promote growth and innovation, and share information with CDFIs
- Provide effective and fiscally responsible mechanisms for investors to create economic opportunity, build wealth, and strengthen communities
- Utilize partnerships to increase volume and efficiency of the CDFI financing system
- Promote diversity of the CDFI industry (small and large CDFIs, rural, urban, and native), in products and services

Using SBCS Findings

- Industry and borrower trends
- Gauge demand for CDFI financing
- Assess longitudinal trends across all credit sources (especially online)
- Geographic differences (region, urban/rural)

Augmenting CDFI Data Sources

- Completes the data chain: industry-institution-transaction-borrower
- Trends in applications, loan type, revenue, employment, credit risk ratings
- Helps CDFIs plan for notable trends – e.g., refinancing stacked online loans
- Identifies borrowers' needs and potential outcomes – e.g., increasing input prices require increased revenue, but not necessarily increased employment

Notable SBCS Findings

- CDFIs are still too small of a subsample to analyze independently, meanwhile...
- 32% of applicants turned to online lenders in 2018, up from 24% in 2017, and 19% in 2016
- Online lending growth occurred despite lower applicant satisfaction compared to satisfaction levels with large and small banks
- Medium/high credit risk applicants were more likely than low credit risk applicants to apply to online lenders: 54% vs. 19%

Value to Advocates and Policymakers

Joyce Klein

Director, Business Ownership Initiative,
The Aspen Institute
Washington, DC
joyce.klein@aspeninstitute.org



The Business Ownership Initiative

Advancing Knowledge and Innovation

- Applied research and evaluation on practice
- Interpreting market trends

Building and Strengthening Leaders

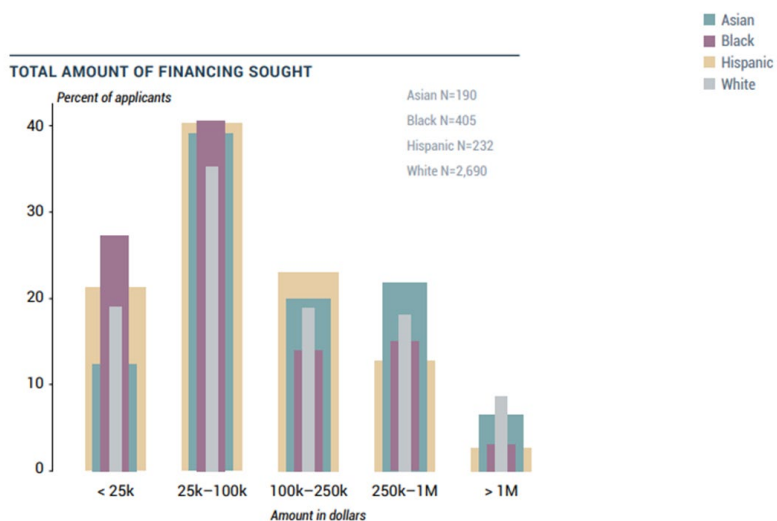
- Peer learning
- Leadership development

Informing Donors, Policymakers and the Public

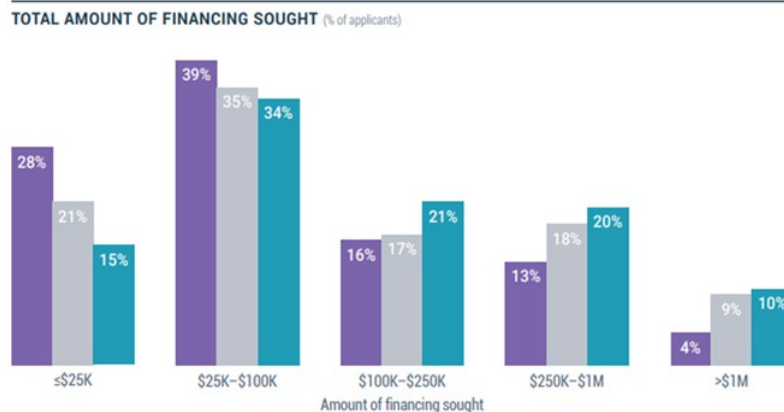
- Public events
- Strategy development and evaluation

Making the Case for Addressing Disparities in Access to Capital

Addressing racial and gender equity:



67% of women-owned applicants sought \$100K or less, compared to 49% of men-owned firms.



*Categories have been simplified for readability. Actual categories are: ≤\$25K, \$25,001-\$100K, \$100,001-\$250K, \$250,001-\$1M, >\$1M.
 ■ Majority women-owned (N=1,249) ■ Equally owned (N=557) ■ Majority men-owned (N=2,273)

¹ Respondents could select multiple options.

2016 SMALL BUSINESS CREDIT SURVEY | REPORT ON WOMEN-OWNED FIRMS

Source: Small Business Credit Survey, Federal Reserve Banks

17

Firms seeking < \$100, 000 in credit:

- 68% of black-owned firms
- 62% of Hispanic-owned firms
- 52% of white-owned firms

Making the Case for Addressing Disparities in Access to Capital

Addressing racial and gender equity:

Mind the Gap: How Do Credit Market Experiences and Borrowing Patterns Differ for Minority-Owned Firms?

Alicia Robb, Mels de Zeeuw

Community and Economic Development Department
Federal Reserve Bank of Atlanta

Brett Barkley

Federal Reserve Bank of Cleveland



Special analysis based on the 2016 SBCS

Making the Case for Investment in Micro and Small Business CDFIs

Educating public and private funders



Most small business owners are seeking relatively small loans: 55 percent of small businesses surveyed were seeking less than \$100,000, and 75 percent less than \$250,000.

Small Business Credit Survey, 2016

Educating Policymakers about Responsible Small Business Lending Practices



1. The Right to Transparent Pricing and Terms: A borrower has the right to have the cost and terms of any financing being offered presented to them in writing and in a form that is clear, complete, and easy to compare with other financing options, so they can make the best decision for their business.

2. The Right to Non-Abusive Products: A borrower has the right to expect that the financing products offered by a lender will not trap his/her business in an expensive cycle of re-borrowing.

3. The Right to Responsible Underwriting: A borrower has the right to expect a lender is offering financing based on underwriting practices that assess the ability of the borrower's business to succeed and repay.

4. The Right to Fair Treatment from Brokers: A borrower has the right to honest, transparent, and impartial communications with a broker regarding loan options, conflicts of interest, fees, and the financing options available.

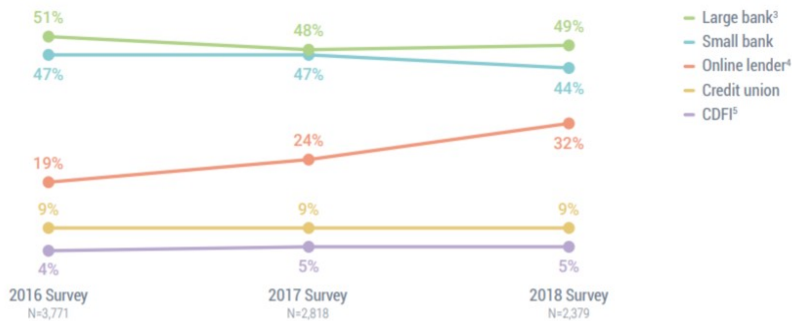
5. The Right to Inclusive Credit Access: A borrower has the right to fair and equal treatment when seeking a loan including protections guaranteed under the Equal Credit Opportunity Act.

6. The Right to Fair Collections Practices: A borrower has the right to be treated fairly and respectfully throughout a collections process and the right to protections like those guaranteed under the Fair Debt Collection Practices Act.

Educating Policymakers about Responsible Small Business Lending Practices

The share of applicants who sought loans, lines of credit, or cash advances from online lenders has grown markedly.

CREDIT SOURCES APPLIED TO^{1,2} (% of loan/line of credit and cash advance applicants)



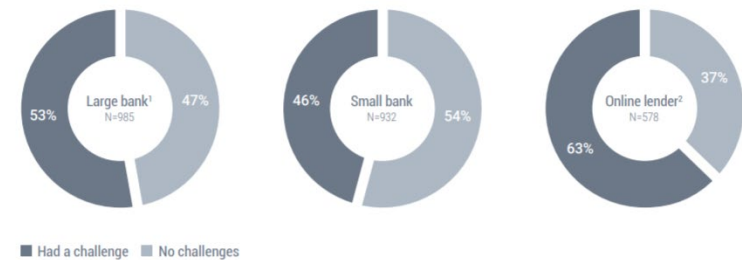
Medium/high credit risk applicants were more likely than low credit risk applicants to apply to online lenders.

CREDIT SOURCES APPLIED TO BY CREDIT RISK OF FIRM^{1,6} (% of loan/line of credit and cash advance applicants)

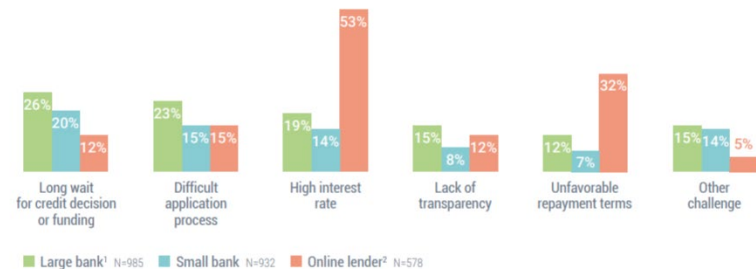


Bank applicants were most dissatisfied with wait times for credit decisions. Online lender applicants were most dissatisfied with high interest rates.

CHALLENGES WITH LENDERS, Select Lenders (% of loan/line of credit and cash advance applicants at source)



CHALLENGES WITH LENDERS,³ Select Lenders (% of loan/line of credit and cash advance applicants at source)



Source: Small Business Credit Survey Report on Employer Firms, 2019

Become a Partner

Mary Hirt

SBCS Partner Manager

Federal Reserve Bank of Atlanta

Mary.Hirt@atl.frb.org



Become a Partner

Go to fedsmallbusiness.org/partnership to learn more about becoming a survey partner.

A Collaboration Among the 12 Reserve Banks of the FEDERAL RESERVE SYSTEM. [Learn more](#)

FED SMALL BUSINESS

Home About Survey & Reports Analysis Partnership

PARTNERSHIP

The Federal Reserve Banks partner with a network of local, regional, and national organizations that have strong relationships with small business owners to disseminate the survey. Become a partner to get access to data-driven reports about your small business network.

Watch the video below to learn more.

Why you should become our partner

FED SMALL BUSINESS

Become a Partner
Join a diverse network of more than 400 small business organizations that collaborate with the Federal Reserve Banks and help them collect information on small business conditions.
BECOME A PARTNER

Become a Partner
Join a diverse network of more than 400 small business organizations that collaborate with the Federal Reserve Banks and help them collect information on small business conditions.
BECOME A PARTNER

Receive email alerts for Fed Small Business
enter your email **SUBMIT**

And, Keep up to Date on all Things Fed Small Business...



www.fedsmallbusiness.org



Questions?

You have two options to ask questions today:

1. Email us at: communities@stls.frb.org.
2. Click the “Ask Question” button in the webinar.

Wrap-Up/Closing

Thank you to today's presenters and to all participants for joining this session.

Next steps:

- All session materials are available on our website and in the next few days we will post an audio file of today's session.
- If you have topical suggestions for future sessions, or any questions about this program, please feel free to contact us at communities@stls.frb.org
- Information about future sessions will be posted on our website along with archived materials from past sessions:
<https://bsr.stlouisfed.org/connectingCommunities>

Join Us for Our Next Connecting Communities!

- Investing in Skills to Improve Worker Outcomes: Lesson from the South
- October 31, 2019
- 3pm ET/2pm CT/1pm MT/12pm PT
- Samantha Evans, Melissa Johnson, Allison Gerber

Related Resources



In connection with this session, you can find a variety of additional resources on this topic, available at **www.fedcommunities.org**.

It provides an array of practical resources to help you in your role as a community development professional, whether your work involves supporting people, places, the policy and practice of community development, or small business development.