

ISSUE BRIEF

Building Your Credit Union's Small Business Portfolio

ACCESS, INCLUSION AND OPPORTUNITY

If small businesses are such a vital part of our national economy and local communities, why do entrepreneurs have such a hard time gaining access to the credit they need to start, run, or expand their business?

In this Issue Brief, we explore this question further by examining findings from both Filene research and external publications.



Minority small business owners are denied credit more often than non-minority counterparts.

THE DEATH OF SMALL BUSINESS

A recent *Gallup Poll article* indicated, “For the first time in 35 years, American business deaths now outnumber business births”. Gallup noted 400,000 new small and medium-sized businesses are being born annually nationwide, while 470,000 are dying.

The alarming consequence: vulnerable communities have less and less money to grow, create jobs, and build a better economic situation for the people that live there. For example a study by the *American Independent Business Alliance* determined that on average, 48% of each local independent purchase was re-circulated locally, compared to 14% of purchases at chain stores.

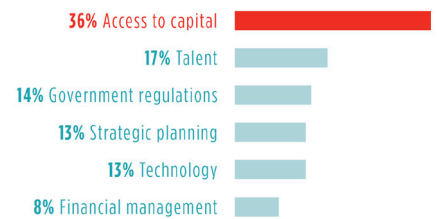
THE PROBLEM: ACCESS TO CREDIT

The entrepreneurial spirit is alive in America. Consumer demand for locally made products and services is strong and there is no shortage of potential businesses owners who are willing and capable of providing those goods. If only they could get credit.

A *recent report* by Filene Research Institute cited a Federal Reserve Bank of New York finding that small businesses face numerous barriers to growth including talent, government regulations, strategic planning, technology, and financial

management. However, this study and numerous other surveys indicate the number one barrier to small business growth is access to credit. While access to credit in general can be difficult, access to small business loans (under \$50,000) and “micro loans” (short term up to \$35,000) can be completely out of reach for many entrepreneurs. This is especially true for startups, newer businesses, or business owners with lower incomes. Why? **Financial institutions often view small businesses as too risky or not profitable enough due to the loan size.**

GROWTH BARRIERS



Source: Federal Reserve Bank of New York (2013).

Small business owners face immense challenges when getting access to credit. What is even more shocking and appalling is how much more difficult it is for minority small business owners.

An *SBA study* found despite the growing economic significance of minority owned businesses, minority small

business owners are disproportionately denied credit (31.5%) when compared to non-minority counterparts (12.3%), especially black and Hispanic owners.

Denial after denial compounds the challenge as prospective business owners become discouraged and frustrated. The same SBA examination found minority business owners are also disproportionately discouraged from applying for credit (29.5%) when compared to non-minority counterparts (15.8%). Minority access to capital is not just limited to “traditional” small businesses. The disparity also exists even with venture capital funded startups. A *study by CB Insights* showed less than 1% of startup founders were black.

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Small businesses can have a higher likelihood of success when ownership and employees more closely represent the communities they serve. A *Harvard Business Review study* showed that businesses with multiple dimension of diversity were significantly more innovative and enjoyed better market growth. Everyone deserves a chance at building a better economic situation for themselves and their community no matter what the color of their skin. Unfortunately, the data shows the support small business owners need to succeed does not exist broadly. Financial institutions can either be an enabler or barrier in reducing this disparity.

THE CREDIT UNION ROLE: STANDING UP FOR THE UNDERSERVED

Recently, *Robert Johnson, CEO of Black Entertainment Television (BET)* proposed a *provocative solution* to get more money in the hands of minority business owners: allow American companies to repatriate about \$2 trillion in overseas

profits—on the condition they invest in minority owned businesses.

While out of the box ideas like Mr. Johnson’s continue to be debated, there are practical and feasible solutions available now to give small business owners of all races and backgrounds access to credit and resources to help them thrive.

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The solutions go beyond smashing the barrier of credit access because having a good idea is not enough for a small business to survive.

The *SBA* indicates that half of new small businesses fail within the first 5 years. Knowing how to run a business is equally as important as access to credit. Financial institutions can help potential business owners overcome financial literacy barriers and provide access to marketing opportunities. Enabling entrepreneurs with the skills to make their businesses successful can help them survive the 5-year mark to continue to contribute to their communities far into the future.

We just need credit unions and other financial institutions to participate.

THE OPPORTUNITY: COOPERATION, ECONOMIC WELLBEING AND COMMUNITY GROWTH

Filene Research Institute recently *published research* analyzing gaps minorities face when accessing

financial services. The research is part of a *larger initiative to identify and test solutions* to help credit unions expand their reach to underserved households.

Credit unions can participate through the *Community Microfinance Small Business Lending program*, which combines small business loans with financial education and in-credit-union marketing opportunities enabling long-term success.

The time for credit unions and other financial institutions to help small business owners of all races, backgrounds, and socioeconomic levels is now. It starts with a simple partnership but can grow into so much more. Over time, successful small business owners grow their relationship with the financial institution that took a chance on them—taking advantage of more mainstream loan products that prop up the small business owner’s and lending institution’s bottom line.

Credit unions were built on a foundation to serve community. Small businesses contribute to strong communities as the economic multiplier effect of hiring, spending, borrowing, and serving builds economic strength in even the most underserved and forgotten neighborhoods.

Lao Tzu, ancient Chinese Philosopher is famous for saying, “*A journey of a thousand miles begins with one step.*” Take a small step to support small business owners. ✨

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