



WISDOM FUND

CREDIT ACCESS FOR WOMEN OWNED SMALL BUSINESSES RESEARCH BRIEF

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INTRODUCTION

The Wisdom Fund was created to bring new thinking, experimentation and sustainable solutions to drive wealth creations for low-income women in the United States by changing traditional lending practices. The Wisdom Fund utilizes a multi-dimensional approach of bringing together non-profit lenders on the ground, participants from their target markets, institutions that show a demonstrated commitment to women's equality and innovative new partnerships that expand the industry's thinking around women, wealth and risk. Wisdom Fund works directly with non-profit lenders to provide capital to push the boundaries of transition lending practices and usher in a new era of opportunity for low-income women. Investments fund innovation around product development, distribution channels and financial coaching resources.

The Wisdom Fund partnered with FUND Community Institute (FUND CI) to understand the baseline lending activities of its cohort of Community Development Financial Institution (CDFI) lenders. The baseline analysis is intended to serve as a point in time reference to track progress towards lending goals related to Wisdom Fund investments and to identify potential areas of intervention to improve lending outcomes to women. Three non-profit lenders provided baseline information to FUND CI: each lender is an established CDFI with a track record of providing small business loans to underserved individuals and communities. Reported lending represented \$49.0MM in loans in the organizations' most recent fiscal years, 38% of which went to women borrowers. Across the cohort, there were minor differences between women and male borrowers and the loans they received. Most notably however, is that across the cohort 50% of development services recipients were to women, though only 38% of loans were to women, suggesting a drop off of women between receipt of technical assistance and loan closing. For additional details on cohort data, see the Wisdom Fund Cohort Data section and Appendix A.

Lower rates of lending to women are reflected in industry reports reviewed to support FUND CI's research efforts. As detailed in the Literature Review section, there are several structural barriers that can limit women's access to credit. A higher proportion of small business owners rely on personal credit to grow and support their businesses. Given women's, and particularly women of colors', lower incomes compared to men, this can limit the financial bases of their business. Women-owned startups also typically have half the equity of male-owned startups. Additionally, female entrepreneurs tend to be less likely to apply for funding, though are less likely to be turned down when they do apply, according to a Gallup poll.

LITERATURE REVIEW

In order to better understand the gap in financing and business capital that exists between male and female entrepreneurs, FUND Community Institute (FUND CI) reviewed available industry reports. While there was a large spike in secondary policy and academic writing on women's access to business capital in 2013 and 2014 at the tail end of the Great Recession, little new research has emerged in the last five years. The following provides an overview of relevant sources. Please see Appendix C for full citations.

NEED FOR FINANCING AMONG WOMEN-OWNED SMALL BUSINESS

Per American Express' 2015 "State of Women Owned Business" report, women in the US form new businesses at 1.5 times the rate of Americans as a whole, adding an estimated 340,000 jobs between 2007 and 2015, making women-owned businesses an important source of employment throughout the Great Recession. By comparison, employment declined among male-led firms during the same time period. This is despite women small business owners starting their firms with, on average, half the capital.

Structural biases against women's overall financial stability also influence female small business owner's access to capital. The Federal Reserve's 2017 Small Business Credit Survey found that 74% of small business owners used personal funds to cover financial challenges in the prior year. Only 29% of those reporting financial challenges took out additional debt to cover costs. This reliance on personal funds is further exacerbated by women's overall lower earnings compared to male workers. According to 2017 American Community Survey estimates, the median full-time female worker in the US earned \$40,760 while the median male worker made \$50,859. The wage disparity is heightened when women workers' race is also taken into account. While white women earned, on average, \$0.81 for each dollar earned by a man in a similar position, Black women earned only \$0.67 and Latina women earned \$0.62. In a lending environment where small business owners often have to rely on their personal finances to grow or stabilize their business, there are clear structural barriers to women's, particular women of color's, ability to grow wealth and this affects their ability to support their own firms.

Female-owned startups are more likely to be structured as a sole proprietorship, more likely to be home-based, and less likely to own intellectual property. 2015 research from the Review of Black Political Economy has found that there is a strong correlation between the structure of a start-up business, business credit scores and owner gender. Furthermore, women are less likely to form businesses in sectors correlated with the strongest business credit scores (managerial services; Finance, Insurance and Real Estate industries; and construction). Lower business credit may affect abilities to secure funds.

The Review of Black Political Economy report also found that women-owned startups have only half the equity as similar male-owned startups (\$83,814 compared to \$47,928) and have credit lines that are, on average, \$9,191 smaller. Despite these findings, researchers found that owner's racial and gender differences in business credit lines were not fully attributable to differences in credit scores. Rather, when credit scores were added to the analysis, the differences between female-owned and male-owned business startups became more pronounced, with the gap in credit lines growing to a significant \$9,788.

Researchers found that rather than explaining the difference in credit access between male-owned and female-owned firms, business credit scores actually masked the size of the disparity.

WISDOM FUND COHORT DATA

In order to begin to better examine how these trends play out in the CDFI industry, FUND CI collected lending and technical assistance data from three cohort members in order to better understand how CDFIs are serving female small business owners. Carolina Small Business Development Fund, LiftFund, and TruFund contributed data on loan originations, terms, interest rates, loan outcomes, and development service delivery based on each organization's most recent fiscal year end. Full findings can be found in Appendix A and collected data points are detailed in Appendix B.

Overall, cohort members reported that 38% of all loans, by both number and dollar value, were to female borrowers. This resulted in \$18.5M in lending to women-owned small businesses over cohort members' most recently completed fiscal year. Loans to women tended to have slightly more favorable terms than those of the overall loan portfolio, with cohort lenders reporting female-borrowers received loans with an average interest rate of 7.2% compared to the overall weighted average of 7.5%. Additionally, loans to women had an average term of 55.8 months compared to 54.2 overall. Cohort lenders reported that their female borrowers had average credit scores equivalent to those of the overall portfolio. Both men and women borrowers had an average individual credit score of 661 at time of application. Based on the small sample size of the cohort, FUND CI found that female borrowers maintain credit worthiness on par with that of the overall population of borrowers.

Female small business borrowers reported overall gross revenues of \$57.1M at the time of borrowing, supporting the maintenance of 1,131 jobs. Cohort members noted that projects will create an additional 731 full time jobs will be created as a result of investments from cohort lenders to female small business owners. 39% of female borrowers represented in the dataset were first-time business owners. This is consistent with the rate of overall loan origination to women borrowers, indicating that new female entrepreneurs in the data set were as likely to access financing as established female business owners.

As detailed above, FUND CI's analysis showed that women borrowers do not demonstrate a different borrower profile than cohort members' client base overall, considering credit scores or status as first-time business owners. The main point of deviation FUND CI observed was that of the number of women receiving development services versus women who go on to receive loans. Though women made up 38% of the cohort members' borrowers, 50% of technical assistance participants were women. Among the cohort, female entrepreneurs accessed development services at the same rate as male entrepreneurs, however, men ultimately received a higher proportion of the loans originated.

At this stage of the research, FUND CI was unable to examine how many of these technical assistance participants went on to apply for financing. However, a Gallup poll of small business owners in 2015 found that while 20% of men indicated they planned to apply for a new loan in the next year, only 9% of female business owners expressed the same interest. Male owners tend to increase their likelihood of applying for credit as their revenues increase, but no similar correlation was found among female owners. This

reluctance to apply for credit belies the fact that in the same Gallup poll, surveyors found that female small business owners, when they did apply for credit, were less likely to be turned down. The 8% rate of decline among female entrepreneurs, compared to 18% among male, indicate that this gap between technical assistance utilization and loan acquisition is likely not due to the overall credit worthiness of the borrower.

NEXT STEPS

This research was undertaken in part to identify potential interventions to increase lending to women small business owners. One primary difference between men and women within the cohort dataset is that while both access development services at the same rate, the percentage of loans originated to women compared to men is 12% lower. Further investigating why women receiving such technical assistance may not proceed to receive a loan, is just one area of additional research which could serve as a follow up to this report. Additional data collection, particularly focusing on persistence of borrowers who complete both technical assistance programming and loan applications, as well as the number of women applying for small business products versus the number being approved, is necessary to paint a more complete picture of how CDFI lenders might help close the financing gap between male entrepreneurs and women-owned small businesses.

Research was also undertaken to serve as a baseline of lending activities. Overall, the rate of lending to women was quite similar across loan breakdowns: 38% of loans originated in the most recent fiscal year end, both in terms of dollar amount and number of loans, with little variation across loan types; 38% of loans outstanding by dollar amount and 36% of the number of loans, again with little variation across loan types. Loans to women had slightly lower interest rates (7.1%) compared to portfolios overall (7.5%), and with slightly longer terms (55.8) compared to overall (54.1). Male and female borrowers had equal average credit scores. Rate of accessing development services provided the greatest differences between men and women accessing cohort members' services. Full details on the data collected from the three cohort participants is provided below in Appendix B.

Finally, the research can inform additional data points that could be collected by cohort lenders moving forward. As the Wisdom Fund initiative begins lending, cohort members should discuss methods to gather data from borrowers, such as through survey and/or pipeline tracking by CDFI cohort members. FUND CI recommends continuing to collect baseline information on borrowers and comparing lending outcomes to baseline totals periodically throughout the collaboration. A full list of data points collected is presented in Appendix B. Additional data points may be built in, such as tracking inquires and exploring conversion rates from development services recipient to borrower and what may cause drop off prior to receiving a loan. Cohort members had also identified the difference between loan size request and approval as a potential indicator of trends in accessing credit for women borrowers.

APPENDIX A: CDFI COHORT DATA ANALYSIS

Unless otherwise indicated, information was collected from three cohort members. Data is based on each organization's most recently completed fiscal year.

1. Loans originated in most recent fiscal year

	Number of loans	Dollar volume
<u>Loans originated (cohort aggregate)</u>		
Total loans	1,344	\$49,002,889.23
Loans to women	515	\$18,506,804.69
Percentage to women	38.32%	37.77%
Average loan size		\$147,131.90
Average loan size to women		\$154,953.88
<u>Microenterprise loans¹ (cohort aggregate)</u>		
Total loans	1,150	\$20,459,299.87
Loans to women	443	\$7,600,125.48
Percentage to women	38.52%	37.15%
Average loan size		\$17,790.70
Average loan size to women		\$17,156.04
<u>Business loans (cohort aggregate)</u>		
Total loans	194	\$28,543,589.36
Loans to women	72	\$11,156,679.21
Percentage to women	37.11%	39.09%
Average loan size		\$147,131.90
Average loan size to women		154,953.88
<u>SBA guaranteed loans (cohort aggregate)</u>		
Total loans	86	\$10,944,000
Loans to women	33	\$3,940,400
Percentage to women	38.37%	36.01%
Average loan size		\$127,255.81
Average loan size to women		\$119,406.06
<u>Loans to existing clients (cohort aggregate)</u>		
Total loans	478	\$16,172,293
Loans to women	185	\$6,132,326
Percentage to women	38.70%	37.92%

2. Loans outstanding as of most recent fiscal year end

	Number of loans	Dollar volume
<u>Loans outstanding (cohort aggregate)</u>		

¹ Cohort members were instructed to count loans over \$50,000 as business loans and loans under \$50,000 as micro-enterprise loans

Total loans	2,947	\$63,699,845
Loans to women	1,116	\$22,952,660
Percentage of loans to women	37.87%	36.03%
<u>Microenterprise loans (cohort aggregate)</u>		
Total loans	2,506	\$29,442,335
Loans to women	968	\$10,781,30
Percentage of loans to women	38.63%	36.62%
<u>Business loans (cohort aggregate)</u>		
Total loans	441	\$34,257,508
Loans to women	148	\$12,171,355
Percentage of loans to women	33.56%	35.53%
<u>SBA guaranteed loans (cohort aggregate)</u>		
Total loans	195	\$8,475,166
Loans to women	70	\$3,028,211
Percentage of loans to women	35.90%	35.73%

3. Loan terms in most recent fiscal year

Most recent FYE	
<u>Interest rate</u>	
Weighted average of all loans originated	7.50%
Weighted average of loans to women	7.16%
<u>Term (in months)</u>	
Weighted average of all loans originated	54.16
Weighted average of loans to women	55.80

4. Borrower firm characteristics

<u>Average credit score (average of cohort members)</u>	
Total loans	661
Loans to women	661
<u>Annual gross revenue from business operations at time of loan/investment² (cohort aggregate)</u>	
Total loans	\$626,486,282.24
Loans to women	\$361,549,272.12
<u>Jobs at time of loan/investment (FTE) (cohort aggregate)</u>	
All loans	3,642.3
Loans to women	1,503.7
<u>Jobs projected to be created (FTE)</u>	
All loans	1,950
Loans to women	830.5

² Not all cohort members were able to report on annual gross revenue and averages should not be compared to other cohort totals

5. Development services delivered in last fiscal year

<u>Business technical assistance (TA) (cohort aggregate)</u>	8,788
Women receiving business TA	4,407
Percentage women participants	50.15%
<u>Credit counseling</u>	492
Women receiving credit counseling	210
Percentage women participants	42.68%
<u>Financial education</u>	2740
Women receiving financial education	1332
Percentage women participants	48.61%
Seminars or other group trainings ³	10,228
Estimated attendance of women	7,481
Estimated percentage attendance of women	73.14%

³ Not all cohort members were able to report on seminar attendance and totals should not be compared to other cohort totals.

APPENDIX B: DATA POINTS COLLECTED

- Loans Originated
 - Total loans (\$, #)
 - Total loans to women (\$, #)
 - Microenterprise loans (less than \$50,000) (\$, #)
 - Microenterprise loans to women (\$, #)
 - Business loans (greater than or equal to \$50,000) (\$, #)
 - Business loans to women (\$, #)
 - SBA guaranteed loans (\$, #)
 - SBA guaranteed loans to women (\$, #)
 - Loans to existing clients (\$, #)
 - Loans to existing female clients (\$, #)
- Loan characteristics
 - Interest rate: weighted average of all loans originated (%)
 - Interest rate: weighted average of loans originated to women (%)
 - Terms (in months): weighted average of all loans originated
 - Terms (in months): weighted average of all loans originated to women
- Loans outstanding
 - Total loans (\$, #)
 - Total loans to women (\$, #)
 - Microenterprise loans (less than \$50,000) (\$, #)
 - Microenterprise loans to women (\$, #)
 - Business loans (greater than or equal to \$50,000) (\$, #)
 - Business loans to women (\$, #)
 - SBA guaranteed loans (\$, #)
 - SBA guaranteed loans to women (\$, #)
- Outcomes
 - Loans originated to certified Women-Owned Business Enterprises (\$, #)
 - Average credit score: all loans
 - Average credit scores: loans to women
 - Loans to first-time business owners (\$, #)
 - Loans to female first-time business owners (\$, #)
 - Annual gross revenue from business operations at time of loan/investment all loans
 - Annual gross revenue from business operations at time of loan/investment loans to women
 - Jobs at time of loan (full time equivalent) all loans
 - Jobs at time of loan (full time equivalent) loans to women
 - Jobs projected to be created for all loans
 - Jobs projected to be created for loans to women
- Technical Assistance/Trainings Offered
 - Counseling provided totals, across following categories
 - Business technical assistance
 - Credit counseling
 - Financial education
 - Real estate technical assistance

- Counseling provided to women, across following categories
 - Business technical assistance
 - Credit counseling
 - Financial education
 - Real estate technical assistance
- Seminars or other group trainings provided total
- Seminars or other group trainings provided, estimated attendance of women

APPENDIX C: REFERENCES

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