



SBFF

Small Business Finance Fund

A CDC Small Business Finance Affiliate

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New Study Concludes that Latino Entrepreneurs in California Face Various Hurdles in Accessing Capital to Grow their Businesses

Study commissioned by the mission-driven Small Business Finance Fund will help the finance industry better serve a growing and untapped Latino business community

LOS ANGELES (Sept. 7, 2017) – More than 40 percent of the nearly 400,000 Latino-owned small businesses in Los Angeles have been denied capital by a bank or other commercial lender because of lower credit scores and other perceived risks, according to a new study released today by the Small Business Finance Fund (SBFF), a community development financial institution (CDFI) established to stimulate economic growth among small businesses, particularly those owned by women, minorities and veterans.

“Latino small business owners have untapped potential as economic engines and job creators in the greater Los Angeles area and throughout California, but remain hampered by restricted access to capital driven by perceived risk factors in the lending community that has stunted Latino business growth,” said Robert Villarreal, SBFF president.

Findings of the SBFF-commissioned study, “Fueling California’s Economic Growth: A Study on Latino Business and Access to Capital in California,” were announced today during a news conference in Downtown Los Angeles in front of leaders from the Latino Business Association, the Los Angeles Latino Chamber of Commerce and other groups that have been fighting for decades to secure funding for Latino entrepreneurs in Los Angeles and throughout the state.

The study, authored by the National Association for Latino Community Asset Builders (NALCAB) with the support of JPMorgan Chase, provided an overview of Latino business in California, the lending environment that they face, perspectives on best practices for lending to Latinos, and recommendations to improve the lending environment for Latino entrepreneurs.

Coming out of the great recession of 2008 to 2010, Latinos were the fastest growing segment of small business owners, according to the U.S. Census Bureau’s 2015 Survey of Business Owners.

“Latino entrepreneurs have passion and good ideas for small businesses, but all they lack is access to capital to help them grow,” said Antonio Pizano, the SBFF’s director in Los Angeles, who added that traditional bank financing is limited for Latino-owned small businesses and relies heavily on loan approvals through Small Business Administration guarantees in their 504 and 7(a) programs.

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For the study, NALCAB drew on quantitative data from federal, state and local government agencies as well as university and public think tanks. NALCAB also interviewed lending experts from national and regional banks, government entities and non-profit financial lenders.

The key obstacles and observations noted in the study included:

- The majority of Latinos rely on personal savings as their main source of capital, followed by credit cards and personal loans from friends (aka “bootstrapping”).
- Most banks are reluctant to offer loans less than \$250,000, the level of capital critical to many Latino entrepreneurs to jump-start and/or grow their small businesses.
- Lower credit scores among Latino business owners continue to be a hurdle. Banks typically seek FICO scores of at least 720.
- Targeted Latino outreach is limited among traditional lenders. Most community banks with assets below \$10 billion are not targeting Latino small businesses in any manner. CDFIs are doing a fair job providing SBA Community Advantage (7a) loans up to \$250K and less.

Bankers interviewed for the study said that common obstacles to providing financing to Latino entrepreneurs include incomplete business records and inadequate documentation – undesired consequences of the cash-based nature of their businesses.

“It’s been a catch-22 for Latinos,” said NALCAB Executive Director Noel Poyo. “With lower credit scores, it’s very difficult to qualify for the larger loans they need to grow. In many cases, they turn to quick, online lenders with egregious payback terms. It’s not a sustainable scenario.”

The study offers the following key recommendations to enhance access to capital for Latino small business owners:

Strengthen mission-driven lenders that provide culturally-relevant products and services to Latinos

Banks can help strengthen CDFIs and other lenders by designating funds for Latino communities in order to meet bank Community Reinvestment Act (CRA) obligations. A standardized referral system should be developed that enables traditional financial institutions to guide Latino entrepreneurs to CDFIs and other mission-based lenders rather than simply rejecting an application for credit. CDFIs are reliable conduits to SBA loans, a critical source of capital for small businesses.

Provide Technical Support to Potential Borrowers

Rather than using rigid credit guidelines, flexible eligibility criteria should address the unique credit, collateral and cash flow situation of Latino entrepreneurs. Banks and other lending institutions should also work with community partners to provide Latino entrepreneurs guidance while applying for loans and other business assistance after the loan has funded. Credit coaching and business mentoring is important for both start-up and existing Latino small businesses.

Coordinate Engagement of Latino-serving Institutions

Bringing disparate organizations together in coordinated efforts to address deficiencies in the development of Latino businesses is vital. Engagement with municipal economic development departments, chambers of commerce, lenders and political leaders across community and ethnic boundaries will embed Latino entrepreneurs in the broader social and business establishment.

About Small Business Finance Fund: SBFF is a Community Development Financial Institution (CDFI), focused on stimulating economic growth by providing capital to small businesses, particularly those owned by women, minorities and veterans. SBFF is an affiliate of CDC Small Business Finance, one of the larger non-for-profit lenders in the U.S. that has provided over \$13 billion in financing to small business entrepreneurs over that last 40 years.

About NALCAB: National Association for Latino Community Asset Builders represents and serves a geographically and ethnically diverse group of more than 100 non-profit community development and asset-building organizations that are anchor institutions in the nation's Latino communities.

About JPMorgan Chase: JPMorgan Chase is a leading global financial services firm with assets of \$2.5 trillion and operations worldwide. The firm is a leader in investment banking, financial services for consumers and small businesses, commercial banking, financial transaction processing and asset management. A component of the Dow Jones Industrial Average, JPMorgan Chase & Co. serves millions of consumers in the United States and many of the world's most prominent corporate, institutional and government clients under its J.P. Morgan and Chase brands.