SMALL BUSINESS

Small Business Loans Harder to Get in Less Affluent Areas

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A new report shows stark disparities in loan rates for business owners in disadvantaged neighborhoods. The report, commissioned by the Woodstock Institute, also shows that small business owners in low- and moderate-income areas receive disproportionately fewer bank loans than small businesses in more affluent areas.

This lack of access to capital compromises a crucial source of economic opportunity and asset-building within lower income neighborhoods. Bank loans to businesses are necessary for community development because businesses without adequate access to capital fail to grow, cannot hire workers, and cannot make the kinds of investment often required of entrepreneurs.

"I needed a small loan to manage a surge of growth at my gourmet donut shop. It would've allowed me to triple my workforce with 24 new jobs and rescue a dilapidated corner of my neighborhood," **said Brad Keiller, the owner of Nomad Donuts in San Diego and a member of the Main Street Alliance.** "I should've been a shoo-in for a small business loan. I have hundreds of thousands of personal capital invested, excellent credit, I've been in business for over two years and my revenue is through the roof. But even with the loan guaranteed by the SBA, banks don't have enough incentive to lend to a business like mine. It's been over a year and I'm on my eighth attempt to secure funding."

The report, *Patterns of Disparity: Small Business Lending in the Chicago and Los Angeles-San Diego Regions,* examines bank lending to small businesses in the Chicago region as well as in the Los Angeles and San Diego region. It is the first in a four-part series of research reports examining small business access to bank loans in eight major metropolitan areas. The report finds that:

- **Small businesses in the Chicago and Los Angeles-San Diego region are getting fewer loans and smaller amounts from banks than in 2001.** The number of Community Reinvestment Act (CRA)-reported loans nationally to small firms (businesses with gross revenues under $1 million) was just under five percent lower in 2014 than in 2001, and 51 percent lower than the peak in 2007, while the total dollar amount of those loans in 2014 was down nearly 47 percent from the amount in 2007 and down over 28 percent since 2001.
- **Small businesses in communities of color and lower-income areas of Chicago and the Los Angeles-San Diego regions are getting disproportionately fewer loans and smaller amounts.** In the Los Angeles and San Diego region, businesses in predominantly Hispanic census tracts constituted an average of 10.3 percent of

all businesses, but they received only 5.8 percent of CRA-reported loans under $100,000 and only 6.1 percent of the total dollar value of those loans. In the Chicago region, businesses in predominantly Hispanic census tracts constituted an average of 2.9 percent of all businesses, but they received only 1.8 percent of CRA-reported loans under $100,000 and only 1.6 percent of the total dollar value of loans. If businesses in predominantly Hispanic census tracts received CRA-reported loans under $100,000 in proportion to their share of businesses in the Chicago region, they would have received 3,700 more loans totaling over $54 million. This trend is consistent in other majority minority areas.
- **This is a national problem.** Nationally, businesses in low-income census tracts comprised an average of 9.3 percent of all businesses for the period 2012-2014, but they received only 4.7 percent of CRA-reported bank loans under $100,000 and only 4.9 percent of the total dollar value of those loans.

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