PROJECT REACh

Roundtable for
Economic Access
and Change

Using Technical Assistance to Improve Minority and Rural Small Business Access to Capital

Issued by the Technical Assistance and Supplier Diversity Subgroup of Project REACh

Contents

About This Report 1

Choosing/Assessing Small Business Technical Assistance Providers......................................2

Most Common Reasons for Loan Turndowns 3

Options for Technical Assistance That Increase Minority and Rural Small Business Access to Capital 4

Near Term Recommendations 4

Mid- and Longer-Term Recommendations 7

Ideas Outside Our Charter or Not Recommended..7

Conclusion 8

About This Report

Minority owned small businesses face more challenges in obtaining capital than other small businesses. As stated in the PayPal-funded report, *Reducing the Racial Financial Health Gap: The Opportunity for Responsible Fintech,* "Black-owned small businesses have faced huge challenges in credit availability, which contributes to the racial disparities in income, financial health, and wealth. The COVID-19 crisis has exacerbated the problem, with government programs like the Paycheck Protection Program largely failing to help…." Rural businesses often face the same challenges. Lack of access to capital requires small-business owners to use and deplete personal resources and to rely on friends and family. This makes wealth creation even more challenging for this population.

Indeed, according to credit score model developer VantageScore, only 78 percent of African Americans and Hispanics are conventionally scoreable.[1]

References to the OCC and Project REACh in this white paper do not constitute an endorsement, recommendation, or favoring of any vendor or vendor products and services by the OCC. Fundraising by members of the Technical Assistance Subgroup is not done with the support, or on behalf of, the OCC. Any gifts or other financial contributions will solely support the expenses related to the activities of Technical Assistance Subgroup members and not the OCC.

Members of the subgroup worked together to articulate their findings; these recommendations do not necessarily reflect the complete positions of the institutions that they represent.

Project REACh was created by the Office of the Comptroller of the Currency (OCC), in part, to improve minority and rural small business access to capital.

The Technical Assistance Subgroup has worked to assess

- the common reasons small businesses are turned down for loans.
- what types of technical assistance might have resulted in a loan instead of a turn down.
- what types of technical assistance might result in a small business getting to a positive loan application more quickly after being declined.
- what other policies and practices might result in more effective technical assistance for small business and an increase in the flow of loan capital to small businesses overall.

There is no single definition of technical assistance. It is the process of providing targeted support to an organization with a development need or problem and is intended to build an organization's capacity. Each small business owner will approach technical assistance

[1] Reported at https://vantagescore.com/lenders/events/webinars/ (8:25 mark). Conventional models exclude millions of underserved consumers by requiring the consumer to have at least one account to be open and reported for six months or more, and at least one account reported within the past six months.

differently; some want to access it with tech on their own, some want some mentoring/help, some want low tech, high touch. We need to find ways to reach the small business owners in all the ways in which they will benefit from the assistance.

According to the Congressional Research Service's most recent update on *SBA Assistance to Small Business Startups: Client Experiences and Program Impact*, updated December 15, 2021, the majority of small business owners are in need of technical assistance programs to sustain and strengthen their businesses. These programs may include strategic and financial planning, legal services, technology solutions, and application assistance to help small businesses access the capital and resources they need.

While small businesses benefit from all those types of technical assistance, this paper recommends actions relating to technical assistance that can help small businesses and minority-owned and rural small businesses with access to loan capital. We want and need to change the survival and success rate of minority and rural small businesses, and with these recommendations, we have identified actionable ways to better assure they can access the capital they need to do so.

Choosing/Assessing Small Business Technical Assistance Providers

There are many, many providers of technical assistance for small businesses. At the federal level, U.S. Small Business Administration (SBA) funded assistance providers include Small Business Development Centers (SBDC), Women's Business Centers (WBC), Veterans Business Outreach Centers (VBOC) and Procurement Technical Assistance Centers (PTAC). The federally funded Minority Business Development Agency (MBDA) also has assistance bureaus throughout the country. Major cities and states, e.g., New York and California, have small business support agencies and assistance centers. Private groups, such as chambers of commerce, particularly those associated with minority or ethnic groups, often provide technical assistance to members and potential members. In addition, numerous academic institutions and non-profits (including many Community Development Financial Institutions (CDFI)) are dedicated to the provision of technical assistance to small businesses.

There are multiple challenges for small businesses given the large number of sources of technical assistance: Which to turn to? Which are most effective? Are there standards? How can I determine the technical assistance provider most likely to help me have a positive impact or outcome for my business?

Just as there is no one definition of technical assistance, there are no certification or licensing processes, or even common standards for what service levels or expertise is needed. There also are few truly qualitative measures of impact assessment. There are metrics. For example, SBDCs gather data on clients served and capital secured. But quality and true impact are difficult to assess, and, in any case, there are no uniform assessment standards.

The most recent *SBA Impact Report Update* noted above highlights the difficulty of assessing impact, while indirectly identifying the importance: "Although the data collected by the SBA concerning these programs' impact on economic activity and job creation are somewhat limited and subject to methodological challenges concerning their validity as reliable performance measures, most small business owners who have participated in these programs report in surveys sponsored by the SBA that the programs were useful. Given the data limitations, however, it is difficult to determine the cost effectiveness of these programs."

The recently issued Treasury Department SSBCI Technical Assistance Grant Program Guidelines, dated April 22, 2022, seek to address this challenge when federal State Small Business Credit Initiative (SSBCI) funds are being used. The guidelines outline the requirements for state applicants seeking the $200 million in grant funds available under that program. They require that applicants provide a data driven assessment of the needs of eligible beneficiaries in the jurisdiction, the organizational capacity of the technical assistance (TA) providers, the connection between the TA project and the SSBCI or other programs that support small businesses, the strategy and efforts to reach very small businesses (less than 10 employees) or those owned by socially and economically disadvantaged individuals (SEDI), and performance goals and output measures.

The lack of common standards for TA providers as well as the lack of common metrics for impact assessment or even common evaluation of impact makes it more difficult to determine the best mechanisms to assure that appropriate technical assistance is provided or that it has the intended impact. The SSBCI technical assistance program guidance may provide a start once the outcome of the assistance provided with the funds is known, but more urgent and additional action is needed.

Most Common Reasons for Loan Turndowns

The Technical Assistance subgroup gathered aggregated anonymized data for turndowns from multiple sources. The most common reasons identified for turndowns:

- Incomplete application due to lack of understanding/knowledge of process
- Incomplete application for a substantive reason (e.g., absence of financial statements for the business)
- Low (or non-existent) FICO score
- Application doesn't meet bank credit guidelines
- Derogatory credit reference
- Delinquent past obligations
- Insufficient business credit history
- Inadequate cash flow, which can be due to business performance but can also be due to intermingling of personal and business finances (note, banks generally require a higher debt service ratio than CDFIs do)
- Too many recent credit inquiries

In addition, there is a segment of small business owners who don't apply for loans because they don't think they will qualify. For example, according to the Federal Reserve 2021 Non-employer Small Business Credit Survey, non-employee firms were least likely to apply for Paycheck

Protection Program (PPP) loans out of all the small businesses that completed the survey. The statistics are instructive:

- 81 percent of small businesses are non-employer firms (have no employees)
- Non-employer firms are more likely to be owned by people of color and women
- 82 percent of employer firms applied for PPP loans vs. 35 percent of non-employer firms
- The non-employer firms that did not apply most often said they chose not to apply because they did not expect to qualify
  - In the Federal Reserve Small Business Credit Survey "2021 Report on Firms Owned by People of Color," 34 percent of black small business respondents cited discouragement as the primary reason they did not apply for financing, more than any other ethnic group.
  - That survey also reported that most firms of color did not have their financing needs met, whereas most white-owned firms did.

In general, CDFIs and community banks will be closer to their communities and more likely to get inquiries from small businesses in their markets. CDFIs are also more tolerant of small businesses with a high number of recent inquiries, past delinquencies, and lack of business credit or cash flow, and thus are more likely to make a loan that a bank has turned down. CDFIs often don't have the resources or marketing expertise, however, to reach the small businesses who are less likely to know about them or apply for loans. Both CDFIs and community banks also have loan sizes and turnaround times that may not be responsive to all small businesses.

These recommendations address both the common reasons for turndowns as well as ways to reach those small business owners that do not apply.

Options for Technical Assistance That Increase Minority and Rural Small Business Access to Capital

The subgroup assessed whether/how TA might address the reasons for loan turndowns or failure to apply—both in the short term in terms of pragmatic actions that can be taken or in the longer term as policy changes. We believe we should start pragmatically—the recommendations should, once the work is completed, be published as best practices for TA providers.

Near Term Recommendations

- Change the name. Most small businesses don't readily understand what is meant by technical assistance and would more readily understand a term like "business support services."
- Identify a public or private group to "own" and implement these and related recommendations and initiatives (the "Implementing Group").
  - Ask a group of banks, fintech companies and other interested stakeholders to staff and fund a minimum 18-month collaboration to do the curation and codification work and launch the distribution and promotion of the end products.
  - Thereafter, a natural public or private "owner" must be identified to continue the effort and assess the impact.

- Identify, curate, and publish documents and tools vetted as "best in class" on credit and small business finance education and access to capital and related topics relevant to obtaining capital including the following:
  - Understanding credit scores
    - The difference between personal credit and business credit and the journey from personal to business credit
    - The actions that increase and decrease a credit score
      - The challenge of too many credit inquiries and how to clear up credit reports
      - The importance of avoiding/minimizing delinquencies
  - The criticality of separating personal and business finance and bookkeeping, especially when seeking credit
  - Tools that improve small business accounting and bookkeeping
  - Preparation of financial statements and tax returns or finding advisors who can help prepare them
  - The criticality of positive cash flow and debt coverage ratios
  - The different types of lenders, the pros and cons of each, and when and under what conditions a small business would likely be eligible for loans from each type of lender
  - Broader education about CDFIs, their mission, and the benefits of CDFIs for small businesses with difficulty procuring capital
- Identify, curate, and publish a resource website/page of "qualified" TA providers, and require or strongly encourage all lenders to provide the list to all rejected loan applicants following a negative credit/underwriting decision. This could be required for government made or guaranteed loans. This practice is already in place for many of the pandemic loan funds, such as the California Rebuilding Fund. Identify ways to strongly encourage all lenders to adopt this practice.
- Organize the curated directory of TA providers by the following:
  - Type of assistance (business support services, financial statements, loan applications, online tools and credit scoring services, and bookkeeping, legal)
  - Geography (walk in) versus virtual
  - Degree of personal attention (1-to-1 vs. cohort)
  - Qualifying experience of counselors and of the TA provider overall
  - Areas of expertise (e.g., industry-specific support)
- Require common disclosures by TA providers:
  - Other than SBA funded TA providers, there are few common standards for or certification or licensing of small business TA providers. In addition, there is no easy way for a small business owner to compare services provided, the quality of services provided, or if a technical assistance provider is best suited to meet the small business owner's needs
  - To address these challenges, the Implementing Group should identify common disclosure standards and format for all TA providers, which they should be required, or short of that, strongly encouraged to disclose:
    - Qualifying experience of counselors and of the TA provider as a whole
    - Areas of expertise for which TA can be provided and, in particular, can help identifying sources of loans and filling out loan applications
    - Time to get an initial consultation and follow-up consultations

        - Impact assessment (beyond current measures such as number of clients that have obtained equity or debt funding after receiving TA from the provider to include things like improvement in credit score, better cash flow, etc.)
        - Client satisfaction scores and/or online or third-party reviews (with the caveat that in some cases a negative score could be correlated to failure to get funding and not to quality of TA provided).
- Promote/advertise the availability of TA providers to match small businesses to appropriate TA that can help them in loan applications, identifying source of capital, and understanding and meeting various types of lender requirements. In a recent case study titled "Lessons Learned From Small Business Lending During COVID-19: A Case Study of the California Rebuilding Fund," published by the Federal Reserve Bank of San Francisco, the author concluded that TA is an important component of enabling small business participation in state pandemic loan funds of this type, stating that, "The CARF partnered with a variety of technical assistance and small business advocacy organizations to educate small businesses about the program and assist them in applying. Several TA providers stressed that early coordination on assistance was important, rather than treating it as an afterthought. Many small business owners experienced challenges in applying, even though the program was targeted to them, and the work of these organizations was important to the program's success." Ways to accomplish this include:
    - Create an application programming interface (API) that lenders can readily integrate into their loan portals that allows for identification of the closest/relevant TA providers. Community Reinvestment Fund, USA (CRF) has already built this into their "Connect2Capital" platform, a marketplace that helps match small businesses to curated capital products and supports services. Applicants can not only be matched with lenders, but with available technical assistance business resources. The platform pre-qualifies applicants based on eligibility criteria provided by the lender or TA provider and then begins an application on their behalf, after which the lender and/or TA partner is prompted to reach out and complete the application.
    - Include the curated TA provider list or locator into products small businesses use regularly e.g., a mobile bank account targeted to underbanked minority small business owners such as MoCaFi or Guava or the Yes Card or online loan application sites
    - Promote/market through community-based organizations and chambers of commerce
- Create a standardized best practice "off ramp" for borrowers turned down for loans. This should include referral to source of TA per above.
- Create a standardized follow-up process for incomplete loan applications. Anecdotal evidence suggests that a follow-up call to applicants with incomplete applications can lead to completion and thus an increased number of small businesses that are approved for financing.
- Identify technology solutions that help business advisors quickly identify the gaps and challenges for a small business and spend time working on the substantive challenges instead of identifying the gaps. Examples include:
    - Hello Alice
    - GrowthWheel
    - myfinalytics
    - CRF/Kanopy
    - Biz2Credit and Biz2Credit VirtualCFO
    - CPA.com: CPA Business Funding Portal (cpaloanportal.com)

- Market the availability of TA to help with loan applications to pandemic grant recipients. This has been successful in increasing loan applications for the California Rebuilding Fund.
- Advocate that TA providers promote networks of small business owners to develop social capital, thereby enabling support and connections for not only normal business challenges but on the access to capital process. Operation Hope does this with its 1 million black businesses (1MBB) initiative and has seen very positive results from forming cohorts—a social network of participating black business owners. Ethnic business groups such as black chambers of commerce also have a direct and positive impact on helping minority business owners form a social network and social capital.
- The Implementing Group should conduct additional research and assessment for each reason for turndowns and identify additional or innovative steps that address that reason.
- The Implementing Group should conduct impact measurements and assessments of these efforts and seek to track increases in loan approval or timing to receive funds as a result of the TA efforts recommended. The Treasury guidance on SSBCI technical assistance fund grants is a start.

Mid- and Longer-Term Recommendations

- Develop standards for TA providers that can help with access to capital and then require TA providers to disclose whether they meet the standards along with the other disclosures identified above (e.g., cash flow/debt ratio changes, loans obtained, time to loan approval, client satisfaction scores).
  - Conduct a full-scale random control trial of the recommendations identified in this paper and the success rate of small businesses that received TA in obtaining access to capital as compared to those that did not receive TA in obtaining access to capital.
  - Encourage the Implementing Group members to record data when participating in implementing the recommendations in this white paper
- Test/consider hypothesis that micro businesses (e.g., those borrowing $50K or less) have a standard set of needs that can be met by common education/counseling and develop a standardized curricula or set of materials for that segment of small businesses.
- Promote use of digital lockers and other technology to pre-populate loan applications/gather documents in a digital locker; fintechs and the financial industry use digital lockers and would be a useful source for best practices
  - NOTE: The SBA is developing a new version of LenderMatch, which is designed to achieve this for SBA lending and could be a good model.

Ideas Outside Our Charter or Not Recommended

This subgroup was charged with working on recommendations related to TA and how it could best increase minority business access to capital. Our group recommends that the following ideas, while directly related to our remit, would have a significant positive impact on minority business access to capital:

- Aligning and encouraging the use of a standard alternative credit box, credit score, or underwriting criteria using open banking to assess cash flow and debt ratios for applicants that do not meet credit score criteria; assuming the lenders use responsible lending principles

- Research/support research showing that borrowers who meet alternative credit criteria such as cash flow/debt ratios, and even those that don't meet standard credit underwriting criteria, are not riskier and thus the loans do not need to be priced differently/higher. This would /should lead to more capital going to small businesses at more affordable rates.
- Find ways to fund and require or strongly encourage all lenders to report loan pay offs (not delinquencies) to the business credit bureaus and to increase awareness of the impact of credit scores on small business ability to access credit. Currently loan pay offs to small businesses are not always reported, particularly by non-profit lenders, due to the expense.
- Our work focused on whether and how TA could help small businesses access loan capital. Venture money can in some cases be a source of capital for small businesses, though it is less likely to be available in the commoditized markets that characterize most small businesses. TA support might help some small businesses access that source of capital.

We also wanted to note that we carefully considered whether certification of TA providers would help or hinder efforts to aid loan applicants. We concluded that disclosure of TA provider characteristics and impact, described above, would be more effective and efficient and do not recommend certification. The following are the reasons:

- The complexity and range of subject matter covered by TA providers (as compared with housing counselors, in which each applicant has similar and more standard criteria to meet, making certification of housing counselors easier to implement)
- The bureaucratic challenge and expense of managing a certification process
- The exclusion of smaller organizations that effectively help small businesses but don't have the tenure funding or administrative capacity to undergo a certification process

We also considered whether to recommend that small and medium-size enterprise (SME) borrowers be required to use technical assistance as a condition of receiving the loan. There are passionate advocates on both sides of that question. A recent McKinsey report, *Beyond Financials: Helping Small and Medium-Size Businesses Thrive*, citing a Canadian study, recommends pairing financial with technical support to best assure the businesses long-term success. Others we spoke with question whether the improved performance is the result of the financial support and would have occurred without the technical assistance. They also suggested that requiring TA could be a detriment to the small business obtaining capital, which is the thing they need most. We determined there was not enough evidence or support currently to include tying the two as a recommendation.

Conclusion

We considered all the recommended options along two dimensions: ease of implementation and number of businesses with potential to be positively impacted. Using this assessment, the following are our priority recommendations:

- Critically, create the Implementing Group to enact the recommendations and identify the ultimate and continuing long-term owner
- Curate financial education and tools that are best in class of credit education and access to capital and publish/promote it

- Require/encourage TA providers to make the disclosures identified above and then make a list of "qualified" TA providers available to all rejected loan applicants as well as promoting the availability of the list/directory to all small businesses
- Identify technology solutions that help business advisors quickly determine the gaps and challenges for a small business and then spend time working on the substantive challenges instead of identifying the gaps

The challenge for minority businesses in accessing capital is significant. The goal is to get the businesses that can pay back loans access to affordable capital. Technical assistance is a strong tool that can address that gap.

Members of the Technical Assistance and Supplier Diversity Subgroup of the Small Business Committee of Project REACh including:

Biz2Credit
eCredable
Fafnir Lab
Mobility Capital Finance Inc. (MoCaFi)
National Community Reinvestment Coalition (NCRC)
Operation HOPE
U.S. Bank
United States Hispanic Chamber of Commerce
VantageScore
Wells Fargo
Zions Bancorporation, N.A. dba Amegy Bank