Even $10m black-owned businesses hit lending roadblocks; a new program seeks to help

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07/03/2019

If you’re a profitable business that has built up sales to $1 million, $5 million or even $10 million a year, getting a loan to expand your business should be a cinch. Right?

Not for African-American- or Hispanic-owned businesses, which for a variety of reasons often find their paths to growth blocked.

On Thursday, New Orleans joined a two-year-old national program that is designed to identify local businesses that have already achieved a level of success but, because they are owned by members of historically disadvantaged groups, have run into roadblocks that prevent them from expanding.

Lynette White-Colin, who is head of Small Business Initiatives at the New Orleans Business Alliance, the city’s economic development agency, points out that 40% of small businesses in New Orleans are black-owned, but that they account for just 2% of total sales receipts.

"Much of it is access to capital," she said. "These small business owners are not able to go to traditional banks. Even when they are, they are often not able to get the money they need. If they really need $500,000 and they only get a $75,000 line of credit, then they could run into cash flow problems, which is one of the main reasons small businesses go under."

Another main reason that black business owners go under is they don't ask for loans for fear of rejection by lenders, according to a study last year by Sterling Bone of the Jon M. Huntsman School of Business at Utah State University and researchers from four other institutions.

They set out to test whether black and Hispanic loan-seekers were treated differently from whites who presented exactly the same credentials on paper to 17 different banks. The results, predictably, showed that those entrepreneurs faced much higher levels of scrutiny and were denied more often.

"Both academic and private-sector research reveals that minority small business owners are denied credit from traditional banking services at higher rates than white small business owners," the study said.

"This denial produces far greater negative results above and beyond the lack of credit availability itself for specific businesses," it concluded.

That is because there have been far more minority-owned small businesses formed than white-owned businesses over the last decade, and they play an outsized role in job and economic growth in cities. So, stalling their growth could have a broad effect on the economy.

"It is important that small business operators reflect the pigmentation of the city," said Quentin Messer, CEO of the Business Alliance.

The Business Alliance's new initiative, called InvestNola, is being brought under the umbrella of a national program called Ascend 2020, which was the brainchild of Michael Verchot, head of the University of Washington's Consulting and Business Development Center.

Verchot's academic interest over the last three decades has been trying to identify the particular problems that minority business owners face, and looking for ways to overcome them. His approach he calls the "three Ms", for management (especially education), markets and money.

For the New Orleans program, the chosen entrepreneurs will gain access to education at the entrepreneurial programs run by Rob Lairka and Mark Quinn at Tulane and Xavier universities, respectively.

The markets idea is about helping minority-owned businesses gain access to public contracts. In March, Quinn at Xavier already launched a web-based initiative funded by a Department of Commerce Minority Business Development Agency grant that aims to make it easier for minority-owned businesses to navigate the bureaucracy when applying for post-disaster government contracts.

"The way we got to this model is my colleague Professor William Bradford looked at 150 or so academic research papers between 2000 and 2013 on black-owned businesses, which collectively showed that black folks face structural challenges," said Verchot.
In New Orleans, White-Colin says, about 250 businesses have been identified as potentially qualifying, from which a few dozen will be chosen. In terms of access to money, the program will have about $10 million available to lend from three community development financial institutions: New Corp Inc., TruFund Financial Services Inc. and LiftFund.

The idea of this approach, says Verchot, is to kick-start the creation of an “ecosystem” that will eventually support its own growth as people learn how to run their businesses and pitch to traditional banks in a manner that will be more likely to lead to loans. It is different from past efforts, he says, which have tended to focus on single businesses, like a beauty salon or auto repair shop, rather than on fostering broader-based change.

J.P. Morgan Chase, the nation's largest commercial bank, is providing $500,000 to cover some of the costs involved in setting up the New Orleans program. It has a similar involvement in the 11 other cities where Ascend 2020 programs have been started, including Seattle, Chicago and Atlanta.

The problems of lending to minority businesses are endemic, according to Ted Archer, head of J.P. Morgan Chase's Small Business Forward unit, a $150 million “corporate social responsibility” initiative to promote minority- and women-owned business.

"Entrepreneurs of color tend to have lower credit scores, collateral and cash reserves, which are essential components of traditional underwriting," said Archer, adding that Small Business Association data show "entrepreneurs of color receive a disproportionately smaller percentage of SBA loans."

The Bone study last year noted that even the data from the SBA, which cover only about 7% of small business lending nationally, have shortcomings.

The bigger problem, according to the study's authors, is that there is little data about minority lending to businesses because financial institutions have resisted, saying it is too costly to collect. Such data is necessary, the study said, in order to identify and start to address the fundamental problems that shut minority-owned businesses out of mainstream lending.