



REDESIGNING LENDING: Improving Access to Capital for Women of Color Entrepreneurs



Introduction

Women of Color (WOC) are the fastest growing group of business owners, yet WOC-owned businesses receive fewer loans and experience limited access to institutional capital. While the number of total businesses increased in the U.S. by 9% from 2014 to 2019, women-owned businesses grew 21%, and businesses owned by women of color grew at a rate of 43% (1).

Despite this growth, average funding amounts for women-owned businesses (\$48,341) were 31% less than male-owned businesses (\$70,239) (2). Additionally, 40% of minority-owned firms received the full amount sought compared to 68% of non-minority-owned firms (3). These data highlight the need for additional studies focused on the intersectionality of race and gender.

The Wisdom Fund and CNote together with Impact Experience, spearheaded this research initiative to identify institutional and personal barriers in order to create solutions leading to greater access to capital for Women of Color business owners. By identifying policies that may reduce borrowing among Women of Color business owners, lending institutions can create more equitable business practices. The goal of this research initiative is to support Community Development Financial Institutions (CDFIs), capital providers, and intermediaries to co-create solutions with WOC business owners.

Impact Experience together with CDFIs within the Wisdom Fund collaborated to gather data and insights from Women of Color business owners on the challenges they face when accessing capital for their businesses. Human Centered Design (HCD) principles were employed to facilitate deeper engagement, empathy, and understanding between CDFIs and Women of Color borrowers leading to policies that improve access to capital and reduce biases in the deployment of capital. One of the key goals of this research engagement is to increase accessibility to capital and the broader network of monetary and non-monetary resources for Women of Color business owners.

*“My business
would not be
thriving
without a CDFI
loan”*

*-WOC Business Owner,
Early Education*

RESEARCH METHODS

Business owners from urban, suburban, and rural cities across the U.S. who identify as Women of Color were invited to participate in this research initiative. 66.1% of respondents identified as Black or African-American, 28.6% identified as Latina, and 5.4% identified as Asian or Pacific Islander. A diverse set of industries were represented to include health and wellness, education, construction, beauty, business consulting, and more. Company size ranged from 0-250 employees.

The research study conducted by Impact Experience consisted of three phases including an initial demographic survey, personal interviews, and a 2-day Impact Experience convening:

- Initial demographic survey (60 participants)

The initial survey gathered history around the businesses including location, industry, and size. While the majority of participants were sole owners of their businesses employing a median of 5.5 employees, the businesses sampled reported having up to 5 owners and up to 250 employees. The mean number of loan applications submitted per business was 3, with a max of 20 applications submitted.

Business owners represented both services and product based businesses within a myriad of industries including construction, caregiver facilities, business consulting, retail, and beauty. The research study also captured businesses at different stages from pre-revenue through \$5M in gross income.

- Personal interviews with business owners, capital providers, and intermediaries (45+ hours)

Pre-Impact Experience interviews with Women of Color business owners were held via zoom to dive deeper into personal and business financial narratives, experiences with lending institutions, and opportunities for improvement within the lending industry. Impact Experience also interviewed banks, credit unions, CDFIs, venture fund managers, academic institutions, and nonprofits to gather common challenges and industry best practices related to diversity, equity and inclusion (DEI).

Post- Impact Experience interviews were scheduled with lenders and intermediaries to determine best practices for implementation of the recommendations found in this study. The study highlighted the specific financial instruments and resources that Women of Color Business owners found most useful in growing and sustaining their businesses. To better characterize and overcome challenges related to designing new financial products, Impact Experience held a series of post-convening interviews to determine how stakeholders from the philanthropic and commercial sectors might work together to provide new financial tools.



RESEARCH METHODS

- Virtual Impact Experience bringing together a cross-section of stakeholders (February 24-25 2021)

The two-day Impact Experience brought together a cross-section of research participants from various industries, geographic locations, and sizes representing business owners, capital providers and intermediaries. Together the group shared challenges and opportunities related to funding of Women of Color run businesses. The event culminated in a facilitated discussion around 'asks and offerings' in which each participant was able to articulate her needs and others in the group offered resources to fill those needs. Several connections were made during the convening leading to capital access, network expansion, and ongoing commitments.



Experiences of Bias lead to Debt Aversion

The data collected identify widespread, systemic policies leading to funding limitations for WOC business owners. 44% of respondents indicated a negative perception towards business debt. An overwhelming majority of women experienced bias during the lending process (71.5%), to include biases in lending policies as well as in interactions with individual loan officers and other banking relationships. 87.5% of respondents felt that race and gender contributed to being unfairly treated during the lending process.

"I participated in an Emerging leaders program with people who were all white emerging leaders...and Women in Ventures who were all white women. I sat with them for 9 months with the SBA emerging leaders and recently for 7 months with the Scale Up program and all I heard was them talking about access to capital. They had no problem getting it.

Maybe our numbers are different. Clearly there are some things that are different And they were telling me to go to the banks that had previously denied me. I didn't even tell them my story because they were so confident that those banks would help me. Some of the issues I didn't even bring up because I felt like they wouldn't have been heard based on the way people were talking about having access to capital.

I felt serious shame about it like maybe it is me. The only thing I could deduce is that it must be me"

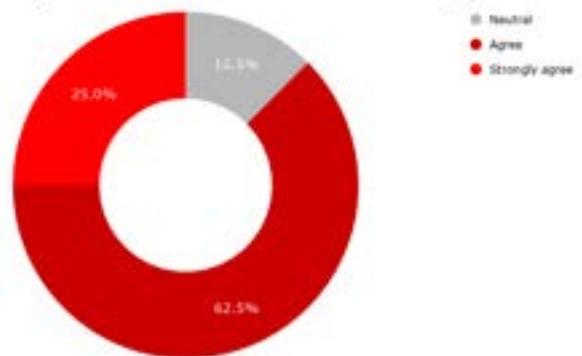
-WOC Business Owner, Health Industry

As stated above, women of color borrowers are often not only denied capital but silenced by the system, even in interventions like the SBA's program. They are silenced not only by the denial but also peer groups that do not address barriers specific to their needs. This is part of the reason why the CNote Impact Experience was so important. WOC formed a peer group that could serve as inspiration, contextual recommendations of tactical actions and confidence.

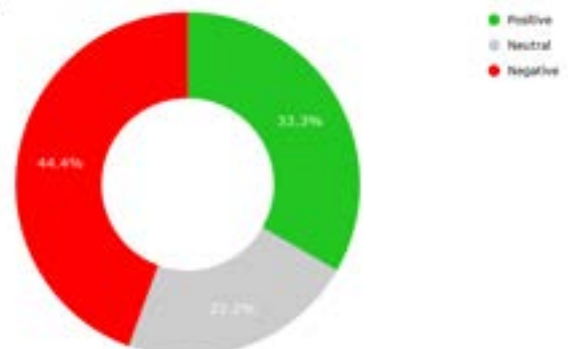
I feel that I was treated fairly during each lending experience.



I feel that my race and/or gender influenced the lending process



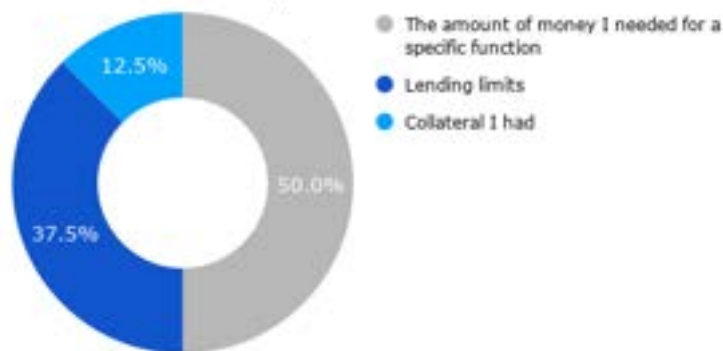
My perception of business debt is



Funding Types Matter

The majority of WOC business owners sought specific amounts of working capital to manage cash flow while awaiting payment from clients or during the COVID-19 pandemic. Loan amounts, however, were often based on the institution's lending limits or requirements for collateral rather than business needs. Low lending limits and high requirements for collateral led to underfunding of businesses.

I calculated my loan amount based on



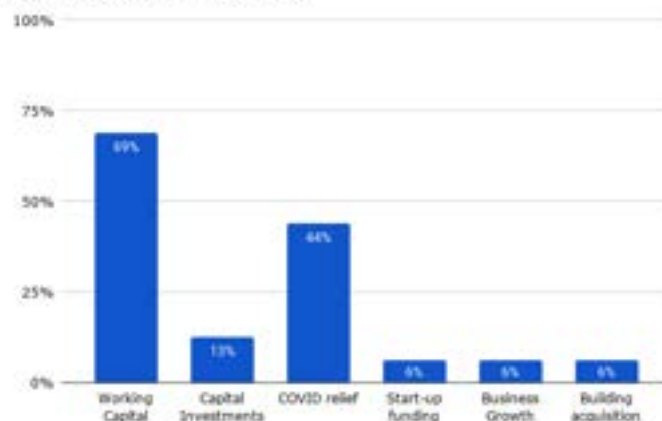
Participants who required lending for working capital reported difficulty finding lenders offering lines of credit. Due to negative perceptions of debt, lines of credit were favored over long term lending so that business owners could borrow only what was required and remain debt-free once invoices were paid. Participants indicated that lines of credit would also reduce the significant administrative burden associated with initiating a new loan application.

"Not everyone has a property they can put a lien on. My experience with lending is that the lender expects you to work miracles with \$5,000. That little money will not change lives. Following George Floyd's death, small amounts of money became more available for women of color. White males seem to get much bigger amounts and for longer times. We get 2-3 years and that is what probably cripples most people. We need patient money. We need Amazon money. The kind of money that allows you to build a multi-million dollar business. The kind of money that understands we may not be profitable for the first few years."

"We don't tend to get the "let me build a business" money. We get the "we feel bad for y'all, let me give you a little bit" money."

-WOC Business Owner, Retail Cosmetics

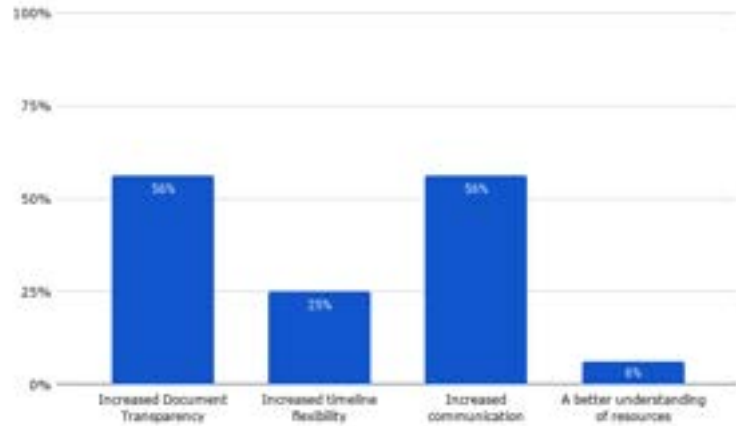
I planned to use my loan for



Reimagining The User Experience in Lending

The lending process was perceived as time consuming and frustrating for business owners often resulting in a rejection letter with little explanation. The administrative burden and feeling that rejection was imminent led WOC business owners to stop applying for loans. 44% of participants cited the COVID-19 pandemic as the reason they applied for loans. Loans are perceived, not as a strategic business opportunity, but rather a necessary evil during times of extreme challenges.

The lending experience could be improved with



Women of Color business owners often applied for loans at large banks carrying their personal banking accounts and mortgages. Unfortunately, the longstanding transactional relationships did not confer the necessary business banking relationships. Numerous stories were shared describing loan officers who would not return phone calls, unrealistic deadlines for documents, lack of clarity around terms, and limited resources for assistance.

In contrast, WOC business owners shared heartfelt gratitude for CDFIs. Business owners who received loans from Wisdom Fund-affiliated lenders trended towards an increase in the total number of loan applications submitted and higher loan approval rates compared to business owners who did not borrow from Wisdom Fund-related lenders. The higher touch services provided by CDFIs cultivated personal relationships that conferred a sense of security. WOC felt comfortable sharing financial vulnerabilities and intimate details about their businesses. Increased communication and transparency during the application process could improve the lending experience across the industry

	Average number of owners within each business	Average current number of employees	Median number of loan applications submitted	Median number of loans approved	Median loan Approval Rate
Median	1	5.5	3	2	66.6%
Range	1-5	0-250	1-20	0-10	0-100%
	Average number of owners within each business	Average current number of employees	Median number of loan applications submitted	Median number of loans approved	Median loan Approval Rate
Wisdom Fund Lenders	1	6	3	2	66.6%
Traditional Lenders	1	4	2	1	50%

RESEARCH INSIGHTS

"I was denied for loans from several community banks and credit unions. I had credit cards with limits higher than the loans they were offering. When I asked them to tell me what I can do to get larger amounts of money.

They said that wasn't their role.

I went to another bank and asked what I needed to do. They told me to open accounts so I opened an account and included a substantial deposit and just left it there. I got to sit down with the loan officer and the same thing happened. Denied with no explanation.

The bank manager said, "We are not able to give you clarity on what you need to do."

-WOC Business Owner, Healthcare Industry

Lack of transparency in the decision process prevents WOC business owners from preparing the best possible loan application while simultaneously perpetuating bias and discouraging applicants.



The way in which financial institutions determine creditworthiness must also be reassessed. Traditional FICO scores do not take into account daily habits such as paying rent and utilities. FICO scores also penalize entrepreneurs who bootstrap their businesses and therefore have no business credit history. The standard framework for assessing creditworthiness builds on historical disparities related to household wealth, household income, and access to early stage capital from friends and family.

The lending industry is built upon a paradox in which personal credit history and banking relationships do not assist applicants in obtaining business credit, however, personal assets are required as collateral to secure business loans. Many Women of Color business owners self-fund their businesses. Business owners are penalized for having little to no debt rather than rewarded for cash flow management and business solvency. Personal delinquencies may serve as a better indicator for creditworthiness than business credit history.

"Because I had paid for everything in cash, I didn't have any credit. This was considered "bad credit" and I couldn't get a loan"

WOC Business Owner, Media Production

WOC business owners who bootstrap their businesses are often penalized for their good financial habits and lack of business debt.

RESEARCH INSIGHTS

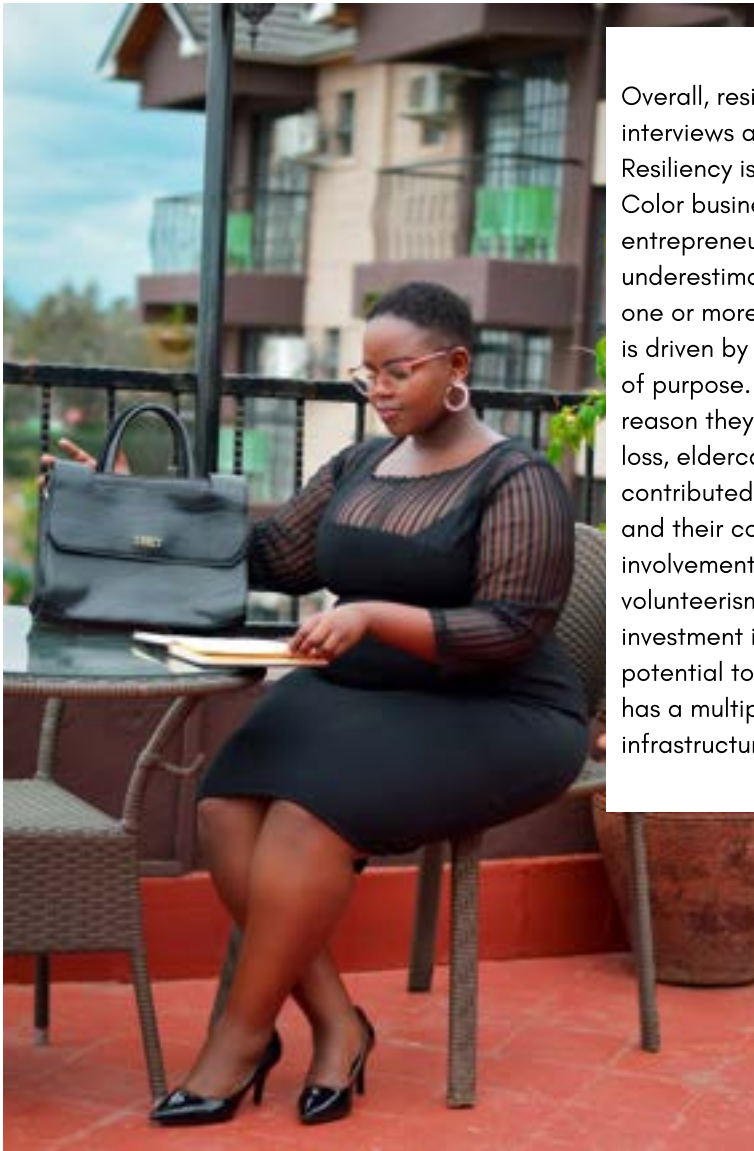
A 2018 study commissioned by the credit monitoring service Experian found that 78% of lenders believe alternative credit data improves financial inclusion (4). The study found that 25% of Americans have fewer than 5 items in their credit history and are designated as “thin file” consumers. This lack of data may result in inaccurate determinations of creditworthiness. Furthermore, a 2015 study published by FICO revealed that 50 million Americans did not have a FICO score (5). The study segmented the data based on the underlying credit challenges providing opportunities for more nuanced strategies around credit assessment. Alternative models to assess credit worthiness would expand the market of potential consumers, increase accuracy of credit determinations, and decrease risk of default for lenders.

Using this strategy, companies across industries have started to create alternative credit assessments that allow them to more accurately determine risk, while expanding credit offerings to more Americans. Lending requirements that rely solely on business credit history limit access to capital for WOC entrepreneurs, who are often first time business owners, during the crucial growth stage of their businesses.

Running a successful, sustainable business requires more than capital. Business owners shared the types of services they found most useful in building and growing their businesses. Leadership development ranked highly as a useful resource for business owners. Business owners also indicated that financial management and accounting services were helpful in growing their businesses. These services allowed businessowners to create the types of projections that banks are looking for, help business owners think strategically about capital management and cash flow, and confer confidence around the health of the business.



Resilience As A Competitive Advantage



Overall, resiliency was a common theme throughout the interviews and the Impact Experience convening. Resiliency is one of the primary reasons that Women of Color business owners are the fastest growing group of entrepreneurs despite being undercapitalized and underestimated. 93% of participants reported overcoming one or more significant business setbacks. This resiliency is driven by passion for their businesses as well as a sense of purpose. Many women cited a family event as the reason they became entrepreneurs including partner's job loss, eldercare, or childcare. Women of Color businesses contributed to the resilience of their homes, their families, and their communities. Over 50% of participants indicated involvement in their communities from caregiving to volunteerism in schools and serving on boards. Therefore, investment into Women of Color businesses has the potential to extend far beyond the specific individuals and has a multiplier effect on the community and infrastructure of combating systemic racism.

RECOMMENDATIONS

1. Capital

- More options for lines of credit
- Higher loan limits
- Lower interest rates
- Access to credit building instruments
- Reduced collateral requirements
- Revenue sharing models

Because the need for assistance with cash flow management emerged as a common theme amongst the Women of Color business owners, creating opportunities for lines of credit would allow business owners with contracts and accounts receivable to manage payroll and stay current on business expenses. Many business owners work with state or federal governments that have a net 30 day payment schedule prior to first payment. Business owners absorb the majority of the costs of operation prior to payment, placing a strain on employee retention. Loan limits based on accounts receivable, contract sizes, or business needs would allow for greater flexibility and provide greater support.

Intermediaries, in collaboration with philanthropic organizations, have an opportunity to create credit building instruments which allow WOC business owners to take out loans at low rates and repay them over time as a way to build business credit. Philanthropic organizations would provide the reserves necessary to decrease risk for intermediaries and reduce interest rates or collateral requirements for borrowers.

2. Rethinking how we assess creditworthiness

There are additional elements that could be used to assess credit including:

- Rent payment
- Utilities
- Number of contracts

Creditworthiness could be assessed based upon routine patterns including rent and utility payments, lack of delinquencies, time in business, and credit payment performance etc. Additionally, as noted above, lending needs often stem from payment delays or unexpected financial emergencies. WOC entrepreneurs often do not have insurance coverage to protect from these family, health catastrophes and/or other emergencies that disparity data shows they experience at higher rates than other communities.

RECOMMENDATIONS

3. Time and efficiency

The following recommendations could be implemented to reduce the time and administrative burden associated with loan applications the following :

- Improve consistency amongst loan applications
- Shorten the length of the application
- Promote greater transparency of documents
- Consider common applications for loans

For WOC business owners who have limited time and resources, the loan application should be as transparent and easily accessible as possible. Standardized applications and shared portals across multiple CDFIs and intermediaries would significantly reduce time spent completing applications. This would have the added benefit of increasing the applicant pool for lending institutions.

4. Additional Resources

Financial coaching, Accounting Resources, Cash Flow management etc.

While lines of credit would assist the availability of working capital, financial coaches and accounting resources also assist WOC business owners with cash flow management, financial models, and future projects. Support resources could reduce the capital required for working capital allowing business owners to focus on growth and expansion efforts. Furthermore, cohort-based programming allows for peer-to-peer networking across industries and stages of business. By sharing relationships and resources that are least likely to discourage WOC business owners from seeking loans, WOC business owners have the opportunity to expand their networks of peers, mentors, and sponsors who will help to grow and scale their businesses.

As Women of Color continue to start and grow new businesses, capital providers and intermediaries who can support their economic growth and development will also benefit from this opportunity to align themselves with future business leaders. By reimagining the lending process through an equity lens, lenders can make decisions that yield economic returns and have a significant social impact. The recommendation is that capital providers offer lines of credit, collaborate across industries to guarantee loans, create more inclusive assessment of creditworthiness, reduce administrative burdens, and support business growth through support services. By doing so, capital providers will seize the opportunity to become leaders among lending institutions in their own right. Investing in women of color run businesses is not only a moral imperative, but also a competitive advantage.

Sources::

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(2)Women-Owned Business Study 2019, Biz2Credit <<https://cdn.biz2credit.com/appfiles/biz2credit/pdf/as-revenue-of-women-owner-businesses.pdf>>

(3) 2016 Small Business Credit Survey | Report on Minority Owned Firms | Small Business Credit Survey <<https://www.fedsmallbusiness.org/survey/2017/report-on-minority-owned-firms>>

(4) "Experian: 78 percent of lenders believe alternative credit data improves financial inclusion." Cision, 2018, <https://www.prnewswire.com/news-releases/experian-78-percent-of-lenders-believe-alternative-credit-data-improves-financial-inclusion-300653416.html>. Accessed 22 03 2020.

(5)"Can Alternative Data Expand Credit Access?" 2015, <https://www.fico.com/en/latest-thinking/white-papers/can-alternative-data-expand-credit-access>.

RESOURCES FOR BUSINESS OWNERS

Capital Providers and Business Resources

Throughout the research period, a number of resources were shared including wrap-around services designed to help business owners grow and sustain their businesses through business coaching, leadership development, networking opportunities, financial and accounting services, additional sources of capital, and alternative financing models. Those resources have been cataloged below.

Organization	Funding Type	Location	Services
Access to Capital for Entrepreneurs (ACE)	CDFI	Georgia	Programs to support business operations
All Raise	Venture Capital	U.S.	Tech Focus
Association of Enterprise Opportunities (AEO)	Online and crowdfunding	U.S.	Programs to support business operations
Astia Angels	Venture Capital	U.S.	
Bank of America Institute for Women's Entrepreneurship at Cornell University	Business Support	U.S.	
Builder Capitalist: Home	Venture Capital	U.S.	
CA Relief Grant program	Grants	California	
LiftFund	CDFI	AL, AK, FL, GA, KY, LA, MS, MO, NM, OK, TN, TX, SC	
USC	CDFI	U.S.	Loans, mentorship, and business plan support
MIN Impact Hub	Network for entrepreneurs	Minnesota	
Native Women Lead	Network for entrepreneurs	U.S.	Networking and mentorship
Good Work Network	Network for entrepreneurs	Louisiana	Programs to support business operations
Other : OFN directory	CDFI	U.S.	
Pacific Community Ventures	CDFI	U.S.	Free nationwide business advising program (fundraising, marketing, and HR)
Pursuit Lending	CDFI	NY, NJ and PA	
Renaissance Community Loan Fund	CDFI	Mississippi	
SBA Guide to Writing a Business Plan		U.S.	The SBA Accelerator competition
SBDCs		U.S.	
The Coaching Fellowship: Empowering Women Leaders.	Network for entrepreneurs	U.S.	
The Runway Fund	Venture Capital	U.S.	Equity funding or convertible loans
TruFund	CDFI	AL, NY, LA, TX	Programs to support business operations
Ulu Ventures	Venture Capital	U.S.	
Village Capital	Venture Capital	U.S.	Programs to support business operations
WOCitar Fund	Venture Capital	U.S.	Focus on tech
Zane Venture Fund	Venture Capital	Southeast US	Programs to support capital raises



About CNote

CNote is a women-led impact investment platform that uses technology to unlock diversified and proven community investments that increase economic mobility and financial inclusion.

CNote makes it easy for institutions and individuals to invest in the economic prosperity of financially underserved communities across America. These investments help women and people of color start businesses, construct affordable housing, create jobs, and fund other community-centered projects.

CNote, believes in economic justice and the importance of confronting, combatting, and redesigning the financial infrastructure and power dynamics that for centuries have kept low-income and BIPOC communities at a distinct disadvantage.

To that end, CNote was founded on two core principles. That everyone deserves an equal opportunity to pursue financial freedom and that each of us can play a part in building a more equitable world simply by changing where cash is invested and held.

For more information about CNote visit: <https://www.mycnote.com/>

About The Wisdom Fund

The Wisdom Fund is a fixed income vehicle that increases capital access and lending for women-owned businesses. It is a co-created effort to bring new thinking, experimentation, and sustainable solutions to drive wealth creation for women of color in the United States.

For more information on the Wisdom Fund visit:
<https://www.mycnote.com/products/wisdom-fund/>



About Impact Experience

Drawing from expertise in venture capital investing and asset management, corporate and private philanthropy, local economic development, and community engagement, Impact Experience provides a unique and immersive action learning platform with a framework around racial equity issues through a meaningful process.

Impact Experience's innovative approach to addressing the very critical (and timely) issues of structural racism incorporates a variety of powerful tools to tackle prejudice by confronting and engaging with the historical and ongoing realities of inequality and racial bias. Impact Experience believes diversity, equity and inclusion are critical in all aspects of this work. Impact Experience taps into the expertise of groups to generate innovative solutions that accelerate a company's transformation and create concrete action plans that ensure organizational commitments. Through their unique framework, Impact Experience generates trust, enhances strategy, and drives connection and action.

The organization's research on diversity, equity and inclusion informs all aspects of the Impact Experience so that partners and program participants have practiced skills of inclusion that they can take back to their work environments and communities around the world. Through the development of a focus on equity and bias reduction, Impact Experience facilitates deep connections within organizations and communities to cultivate a common thread, a shared commitment, and an opportunity to help deepen individual and community engagement with equity at its core.

For more information about Impact Experience visit: <https://www.impact-experience.com/>