



Small Business Ecosystem Toolkit

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Introduction



About the Toolkit

This toolkit outlines financial challenges¹ faced by New Jersey's small businesses, elevates solutions and case studies for the lending ecosystem to consider, and provides resources to the small business lending ecosystem.

The views expressed here are those of the authors and do not necessarily represent the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.

¹ Quantitative data presented in this report are derived from the 2021 Small Business Credit Survey. The Small Business Credit Survey is a national sample of small businesses focused on firms' financing and debt needs and experiences. Learn more about the survey at www.fedsmallbusiness.org/survey. All quantitative facts about New Jersey small businesses included in this report can also be found directly in a larger report at www.philadelphiafed.org/community-development/credit-and-capital/small-business-credit-survey-a-racially-disparate-recovery-in-new-jersey. All statistics presented represent New Jersey small businesses in 2021.

About the Lab

This toolkit is part of a Research in Action Lab, conducted in partnership with the New Jersey Economic Development Authority (NJEDA), focused on addressing the needs of small business owners and equitable access to financing.

This toolkit is produced in partnership with the NJEDA and other partners who provided ideas or participated in the Research in Action Lab conversations, including but not limited to:

The African American Chamber of Commerce of New Jersey

The Asian Indian Chamber of Commerce

Community Lending NJ at Valley National Bank

From HERE

Invest Newark

The Latin American Economic Development Association

The New Jersey Small Business Development Center at
The College of New Jersey

Rising Tide Capital

The Statewide Hispanic Chamber of Commerce of New Jersey

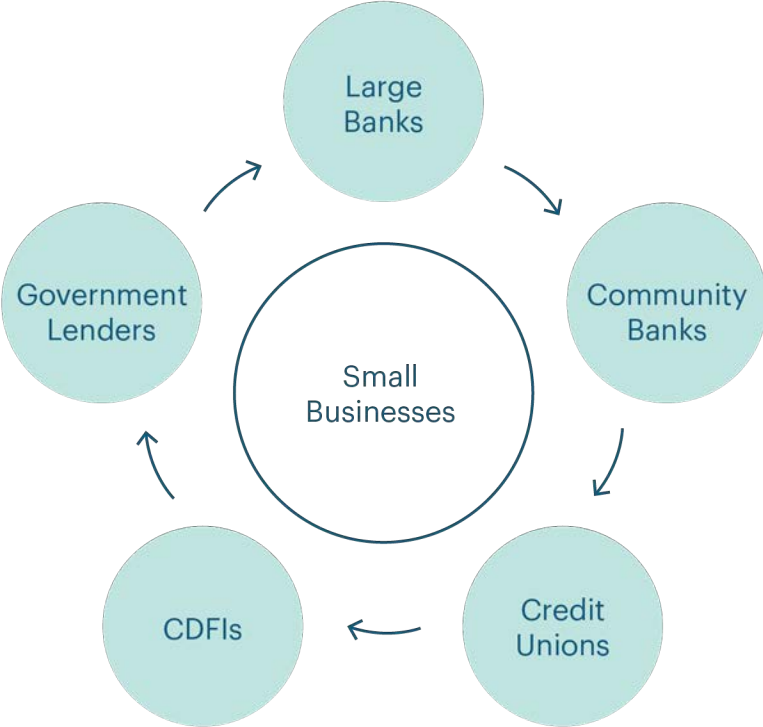
The Trenton Division of Economic Development

1911 Smoke House BBQ

The LAB in Fairfield, NJ

What Is the Small Business Lending Ecosystem?

The lending ecosystem is the set of private, nonprofit, and public lenders that provide capital and financing to small businesses in the area.





Challenges of the Ecosystem

What Financial Challenges Are Small Business Owners Facing?

Financial challenges faced by NJ small business owners generally fall into these buckets:



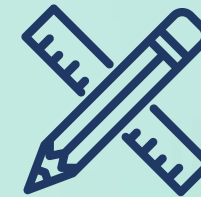
Perceptions

Perceptions of products and risk



Products

Product-related barriers



Processes

Processes around administration and navigation



Challenge: Perceptions

Perceptions impacted the ability of small businesses to access credit and capital and their decision to look into lending or other lines of credit.

- Fifty-one percent of small businesses that did not seek pandemic-related financial assistance (and 77 percent of businesses owned by people of color) said it was because they **did not think they would qualify**.
- Fifteen percent of small businesses that did not apply for 2021 nonemergency financing (and 26 percent of businesses owned by people of color) said it was because they were **discouraged**.
- Twenty-one percent of small businesses that use a large bank and 12 percent of small businesses that use a small bank listed **transparency** as a challenge.
- Small businesses that do not use banks said it is because
 - they would not meet **bank requirements** (43 percent); or
 - they felt that **“banks don’t work with businesses like mine”** (14 percent overall; 22 percent of businesses owned by people of color).



My experience with banks in general when it comes to getting money has been totally negative. I will never go to a bank for any money.

– Business owner, summer 2021 listening session with the Asian Indian Chamber of Commerce

And [to] be honest with you, I never really felt comfortable, like we had a banking relationship that [was] beneficial to us.

– Business owner, summer 2021 listening session with the African American Chamber of Commerce of New Jersey

During this time, it's hard to find people you can trust with your information. Many times, people come along pretending to help – but what they really want is to rip us off.

– Business owner, summer 2021 listening session with the Statewide Hispanic Chamber of Commerce of New Jersey



Challenge: Products

The requirements of the products themselves were a barrier for some small businesses.

- Twenty-two percent of small businesses that use a large bank (and 29 percent of businesses owned by people of color) listed **high interest rates** as a challenge.
- Thirty-eight percent of small businesses that did not apply for 2021 nonemergency financing said it was because of **debt aversion**.
- Eleven percent of small businesses that did not apply for pandemic-related financial assistance (and 28 percent of businesses owned by people of color) said it was because they **could not find a program** to fit their needs.
- Small businesses that do not use banks said it is because
 - **costs and fees** are too high (40 percent); or
 - they **do not offer needed products or services** (22 percent).



Most of these institutions specialize only in certain category of loans. So you go to them for [an] equipment loan, they say, 'Oh, by the way, we don't really do equipment loan[s].' Go to them for a real estate loan. 'Oh, sorry. We don't do real estate loan[s].' Go to them to carry on with your cashflow. 'You want...a line of credit.'

– Business owner, summer 2021 listening session with the
Asian Indian Chamber of Commerce

[Lending institutions must] do a better job with one, educating and making people understand what they're actually offering...we're all businesspeople. None of us are bankers, where we understand the details of the loan or what we can or can't do, right?

– Business owner, summer 2021 listening session with the
Asian Indian Chamber of Commerce



Challenge: Processes

The processes involved in applying for and accessing credit posed challenges for many small businesses.

- Forty-seven percent of small businesses that use a large bank and 34 percent of small businesses that use a small bank listed a **difficult application process** as a challenge.
- Forty-five percent of small businesses that use a large bank and 29 percent of small businesses that use a small bank listed the **long wait** for a credit decision or funding as a challenge.
- Twenty-six percent of small businesses that did not seek pandemic-related financial assistance (and 34 percent of businesses owned by people of color) said it was because programs were **too confusing or time-consuming**.



The paperwork involved...the very hassle of trying to get money, even though you are a long-term customer.

- Business owner, summer 2021 listening session with the Asian Indian Chamber of Commerce

I'm not good with the fine details of paperwork...I worried so much about it that I told myself that once I don't need it, then I'm not going to put myself in that position because I was so scared of the repercussion of whatever. And so I didn't do it. I didn't apply.

- Business owner, summer 2021 listening session with the New Jersey Small Business Development Center at The College of New Jersey

Sometimes you're struggling to survive and the financial help doesn't arrive in time. And many times, you have to get more credit cards and you dig deeper because you're waiting for something that is allegedly approved.

- Business owner, summer 2021 listening session with the Statewide Hispanic Chamber of Commerce of New Jersey



Elevating Solutions

Elevating Solutions: Background

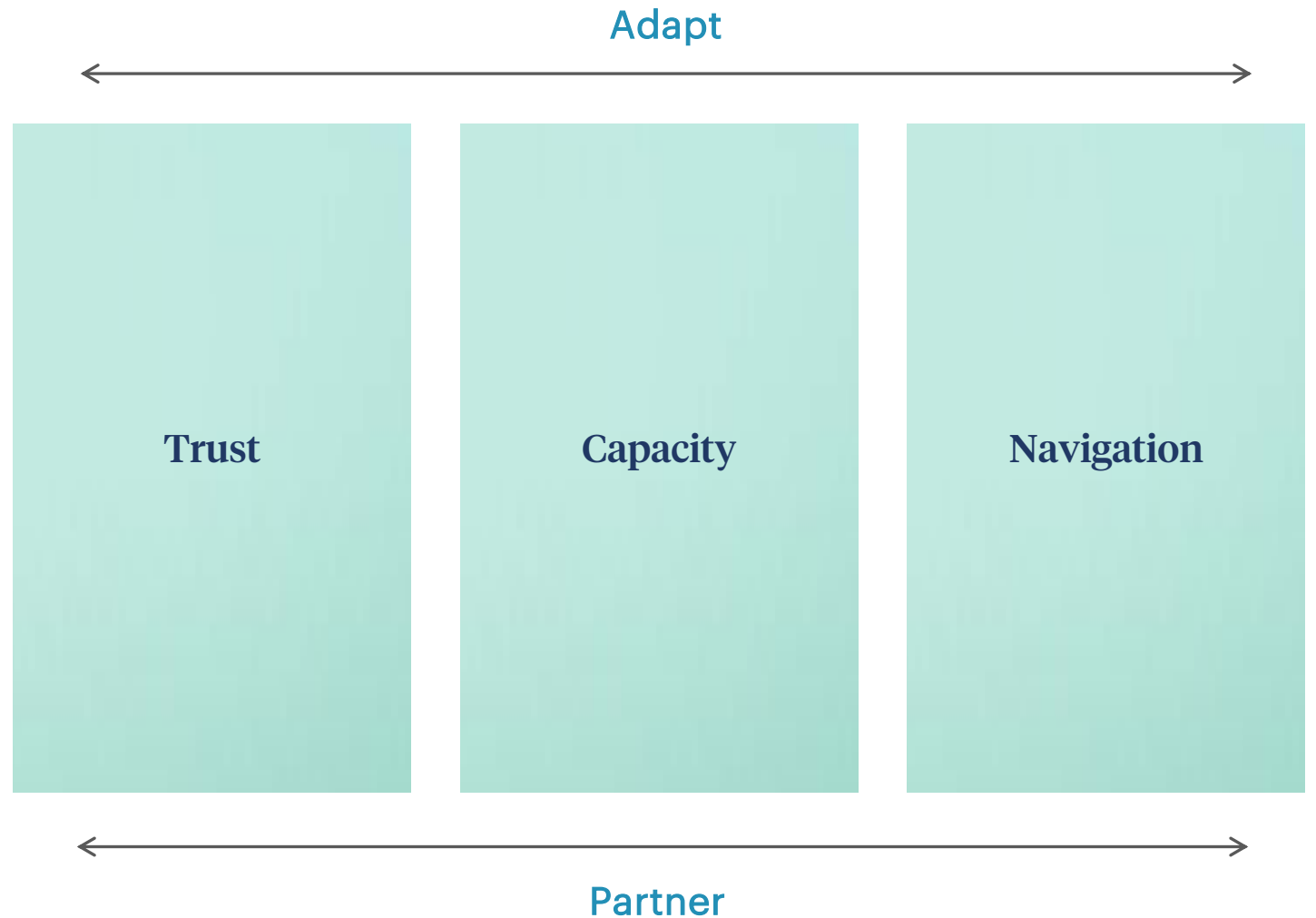
In partnership with the NJEDA, the Federal Reserve Bank of Philadelphia conducted roundtables with small business owners of color and community bankers from 2021 to 2022. They also hosted a conversation in Trenton, NJ, to hear directly from individuals in the small business ecosystem.

The solutions framework is informed by these conversations. The three core solutions focus on building the capacity of small business owners, helping small business owners navigate the ecosystem, and building trust with lenders of all sizes.



Elevating Solutions

Across all of these solutions, the lending ecosystem must be adapted to have an equity focus. Likewise, partnerships are essential to collaboratively advance these solutions. The case studies highlighted in this toolkit demonstrate examples for different actors in the lending ecosystem.



Solutions: Trust

Lenders tend to have more success in communities in which they are trusted.

To authentically build trust with underserved communities, lenders can:

- target outreach to communities not typically served, including lower-income communities and communities of color.
- present at community organizations, minority-owned chambers of commerce, SBDCs, and neighborhood groups.
- build the internal talent pipeline by bringing in more bankers and lenders who represent the communities they are seeking to serve.
- produce materials in languages and dialects spoken in communities served.
- consider cross-sectoral solutions, such as partnering with community development financial institutions (CDFIs) in the region to recruit.
- reach out to trusted organizations and intermediaries to build trust.



Trust comes from truly understanding the needs of the population and finding ways for them to successfully acquire/pay back the loan in a way that doesn't feel like a forced initiative that is focused on numbers versus outcomes. Trust is built when you understand their experience, business model, industry, geographic location, etc. and create financial tools that make sense for them, while educating lenders and changing the practices/stigmas around minority lending.

– Sneh Kadakia, founder and CEO of “from HERE” in Plainfield and Princeton Junction, NJ

Where I'm from, I don't know any bankers. It's who you know that opens the door. You're more apt to help me as a lender if you actually know that I work hard. You have a personal investment in me because you actually know me. If lenders want to have relationships with small businesses, pick three small businesses in your area, meet the owners, hear about their challenges, and maybe you have a program that could be of help and they might meet the criteria.

- Michael Piercy, owner and founder of The LAB in Fairfield, NJ

Solutions: Capacity

Small businesses often lack the capacity that would position them to access the lenders and products they need. Increasing the capacity of small business owners through technical assistance can help address New Jersey small businesses' challenges with administrative burden and perception of products.

To address this, lenders can:

- provide financial counseling to small businesses applying for the first time.
- refer those who do not qualify for traditional products to small business development centers (SBDCs) or CDFIs.
- serve in an advisory capacity with community lending organizations that help small businesses.
- mentor small business owners through engagement with minority chambers of commerce, SBDCs, and CDFIs.



Access to capital, wealth creation, and job growth depend on a company's sustainability and profitable sales. Small business development centers are positioned to assist businesses with building capacity strategies to ensure continued success and growth.

– Lillian Mauro, regional director of the
New Jersey Small Business Development Center at The College of New Jersey

We've been doing some nanolending work at the grassroots level to use capital as an educational tool to position emerging entrepreneurs to access increasing amounts of capital in the future. Our work has resulted in individuals being able to improve their credit scores and build out their borrowing profile leading to traditional opportunities for capital access.

– Ray Lamboy, president and CEO of the
Latin American Economic Development Association

More lines of credit [would help] entrepreneurs have the resilience of having a preapproved amount available to them when it is needed, rather than needing to go through the stressful process of applying for a loan only at the last minute when it is needed.

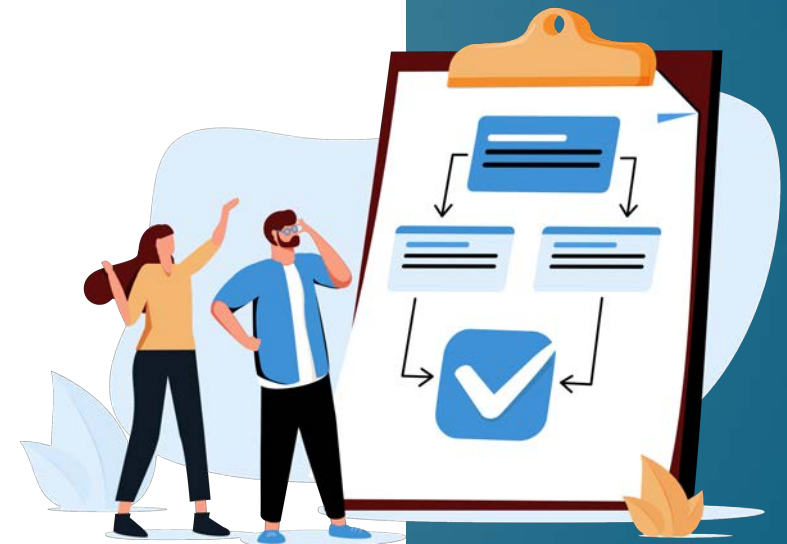
– Alex Forrester, cofounder and COO of
Rising Tide Capital

Solutions: Navigation

Another challenge raised in conversations and the data is the complexity of navigating the lending ecosystem. While there are many resources available, small businesses struggle to know where to go, what they qualify for, and how to find the appropriate lender.

To make it easier for small businesses to find resources, lenders can:

- improve public awareness of services by collaborating with city government and community organizations.
- create a list of services and organizations within your region who provide resources to small businesses.
- educate intended audiences about types of products available and how to come prepared when applying for lending.
- inform financial institutions staff so that they may refer small businesses to external resources available from the public sector, SBDCs, and community groups.



First, you would need lenders willing to make the loans — it's frustrating when you have all the required docs plus good credit and still get denied. Next, you need the proper communication of said loans — possible community meetings.

– Maurice Hallett, owner of
1911 Smoke House BBQ in Trenton, NJ

The first step to equitable access to grants and loans is making sure that businesses of color know about them...the City of Trenton intentionally designed a communication plan that would reach all communities, including distributing grant and loan information to businesspeople when they applied for a city license, educating council people and third-party entities so they could help spread the word, earned media, social media, and building an emailing list for regular notifications.

– Eric Maywar, economic specialist at the
Trenton Division of Economic Development

Solutions: Adapt

From private to public funders, an opportunity for innovation that arose in our conversations was leveraging and offering products and services that provide flexible and attractive lending terms at various stages of a business's life for a small business owner.

- For CDFIs, credit unions, and public funders, this can include lowering interest rates, extending repayment timelines, or offering microgrants that provide a lifeline to smaller businesses.
- For all lenders, this can include finding other ways to evaluate creditworthiness, such as rental payments or other bills, that may not be factored into credit scores. This can also include innovative forms of collateral for a small business owner.



Lenders could create a pool of funds for equity investment in businesses of color, as venture capital is lacking in our communities, and oftentimes these businesses are seeking loan capital when what they really need is equity capital. Lenders could leverage resources from state government agencies to provide credit enhancement and interest rate buydowns. Pooled resources from lenders could also be used for credit enhancement and interest buydowns.

– John Harmon, founder, president, and
CEO of the African American Chamber of Commerce of New Jersey

Banks should consider what other metrics they can look at to help get businesses cash. Can you look at metrics and progress prepandemic? People are still trying to dig themselves out. After the pandemic closures and Hurricane Ida, I looked at banks as an automatic rejection. We were too far from what their requirements were going to be.

- Michael Piercy, owner and founder of
The LAB in Fairfield, NJ

Solutions: Partner

A partnership lens is seen as critical to innovation, working between the private, public, and nonprofit sectors to improve the ecosystem and communicate better with small business owners. To address this, lenders can:

- partner with CDFIs and other organizations that are closer to the ground.
- leverage resources from state agencies like the NJEDA to build capacity and support small businesses.
- think of small businesses as part of the ecosystem, and refer them to other resources, lenders, and partners, rather than engaging with them only transactionally.
- create a collaborative of organizations supporting small businesses in your region so that you may be up to date on the lending ecosystem and resources available.



A system that evaluates long-term impact of business[es] in the community instead of focusing on quarterly profits can help to lift communities and promote well-being. This system can also evaluate the efficiency of local financial systems assessing cooperation rather than focusing on individual competition. This approach can reduce redundancy and facilitate customer acquisition models as clients are transferred over as they grow and [their] needs change.

– Luis O. De La Hoz, FVP regional director of
Community Lending NJ at Valley National Bank

Solid partnerships assist with true exposure to best business practices and aid with demystifying the pathway to accessing capital, which is a major barrier for many of our small businesses owned by people of color...providing true-to-life lessons in scaling, pivoting, expansion, maintenance, access to procurement, and technical assistance are also ways that partnerships can benefit our small businesses owned by people of color.

– Roy Southerland, chief investment officer of
Invest Newark



Solution Case Studies

Examples of solutions from various lending models

What Can a Community Bank Do Individually?

Helping women- and minority-owned businesses **through both financial assistance and technical assistance** can be an effective approach to reinvigorating a women- and minority-owned startup culture in the region.

- Cross River Bank, a New Jersey-based institution, has formed multiple **partnerships** with both the Brooklyn Chamber of Commerce and TechUnited:NJ to provide both **financing and technical assistance for women- and minority-owned businesses**.
- In 2022, the Small Business Grant Fund allowed for \$220,000 to be quickly allocated to women- and minority-owned businesses, which included recently opened small businesses, through the Brooklyn Chamber during critical moments of the pandemic.
- The women- and minority-owned business cohort allows minority and women entrepreneurs the opportunity to have **one-on-one mentorship and networking opportunities** to help build their startups and small businesses in Bergen County, New Jersey.



How Can Community Banks Collaborate?

Partnering with other lenders to pool resources and capacity can be an innovative method for lenders to lend and provide assistance to minority-owned small businesses.

- In 2021, Bank of Charles Town (West Virginia) launched the Banking on Diversity initiative, a minority business funding program. The program was created in partnership with two other community banks operating in West Virginia, Virginia, and Maryland.
- The banks have collectively committed up to **\$1.5 million in interest-free loans** to aid both startup and existing **minority-owned small businesses** within the sponsoring community banks' markets. There are two loan programs: one for startups and one for existing businesses. The program is expected to include educational seminars to support the businesses' evolution. To date, the program has helped 31 businesses with approximately \$1.2 million in capital.



What Can a CDFI Do?

Upfront and unmatched grants to CDFIs and community lenders help leverage the demand on various entities to quickly deploy funding with attractive terms to underserved markets in times when demand for funding is high.

- The NJEDA offered two operating grants to CDFIs and other eligible lending partners with at least 10 years of small business lending experience that could be used to **support their operating expenses or buy down interest rates** through the COVID-19 CDFI Emergency Assistance Grant Program (a max award of \$250,000) and the Micro Lender Support Grant Program (a max award of \$200,000).
- The Union County Economic Development Corporation (UCEDC) used both of its grants to **support its Crisis Relief Loan Program and subsidized 0 percent interest rates on loans** provided to small businesses to help them navigate the pandemic.
- This program allowed UCEDC to provide funding at a quick turnaround to **145 small women- and minority-owned businesses** with the COVID Emergency Grant and another **217 businesses** with the Micro Lender Support Grant.



Resources

Tax Credit and Exemption Programs

[Aspire Program \(NJEDA\)](#)

[Angel Investor Tax Credit Program \(NJEDA\)](#)

[Digital Media Tax Credit Program \(NJEDA\)](#)

[Film Tax Credit Program \(NJEDA\)](#)

[Historic Property Reinvestment Program \(NJEDA\)](#)

[Offshore Wind Tax Credit Program \(NJEDA\)](#)

[Salem County Energy Sales Tax Exemption \(NJEDA\)](#)

[Sales and Use Tax Exemption Program \(NJEDA\)](#)

[Tax Credit for Hiring Veterans and Other Target Groups \(NJ Department of Labor and Workforce Development\)](#)

[Urban Enterprise Zone Manufacturers Energy Sales Tax Credit \(NJEDA\)](#)

Grants and Voucher Programs

Catalyst R&D Voucher Program (NJEDA)

Clean Tech Research & Development Voucher Program (NJEDA)

Electric Vehicle Workplace Charging Grant Program (NJ Department of Environmental Protection)

Hazardous Discharge Site Remediation Fund (NJ Department of Environmental Protection)

NJ Clean Construction Program (NJ Department of Environmental Protection)

NJ Ignite (NJEDA)

NJ Zero Emission Incentive Program (NJZIP) (NJEDA)

Pre-Apprenticeship in Career Education (PACE) (NJ Department of Labor and Workforce Development)

Petroleum Underground Storage Tank Remediation, Upgrade, and Closure Fund (NJ Department of Environmental Protection)

Return and Earn: Employer Grants for Hiring Unemployed Workers (NJ Department of Labor and Workforce Development)

School and Small Business Energy Efficiency Stimulus Program (NJ Clean Energy Program)

Small Business Improvement Grant (NJEDA)

Small Business Lease Grant (NJEDA)

Loan and Financing Programs

Bond Financing (NJEDA)

Direct Loans (NJEDA)

Drinking Water State Revolving Fund Program (NJ Department of Environmental Protection)

Edison Innovation Fund (NJEDA)

Hazardous Discharge Site Remediation Fund (NJ Department of Environmental Protection)

Investments in Women-Led Start-Ups (NJEDA)

New Jersey Water Bank Program (NJ Department of Environmental Protection)

NJ Accelerate (NJEDA)

Petroleum Underground Storage Tank Remediation, Upgrade, and Closure Fund (NJ Department of Environmental Protection)

Premier Lender Program (NJEDA)

Small Business Fund (NJEDA)

Venture Fund Investments (NJEDA)

Other Resources

Partnerships and Accelerator Programs

[NJ Accelerate](#) (NJEDA)

[NJ Industry Partnerships](#) (NJ Department of Labor and Workforce Development)

Employee Hiring and Training Programs

[The Federal Bonding Program: Assurance for Hiring Hard-to-Place Workers](#) (NJ Department of Labor and Workforce Development)

[Upskill: Free Incumbent Worker Training Programs](#) (NJ Department of Labor and Workforce Development)