



# Pathways to Quality Credit

Claire Kramer Mills, PhD  
Community Development Team

July 24, 2020

FEDERAL RESERVE BANK *of* NEW YORK

# OVERVIEW

---

1. Small business financing is critically tied to personal credit and assets
2. Trends in access to credit and financial services
  - Pre-COVID
  - Evidence from PPP program
3. Building back stronger: strengthening infrastructure and networks

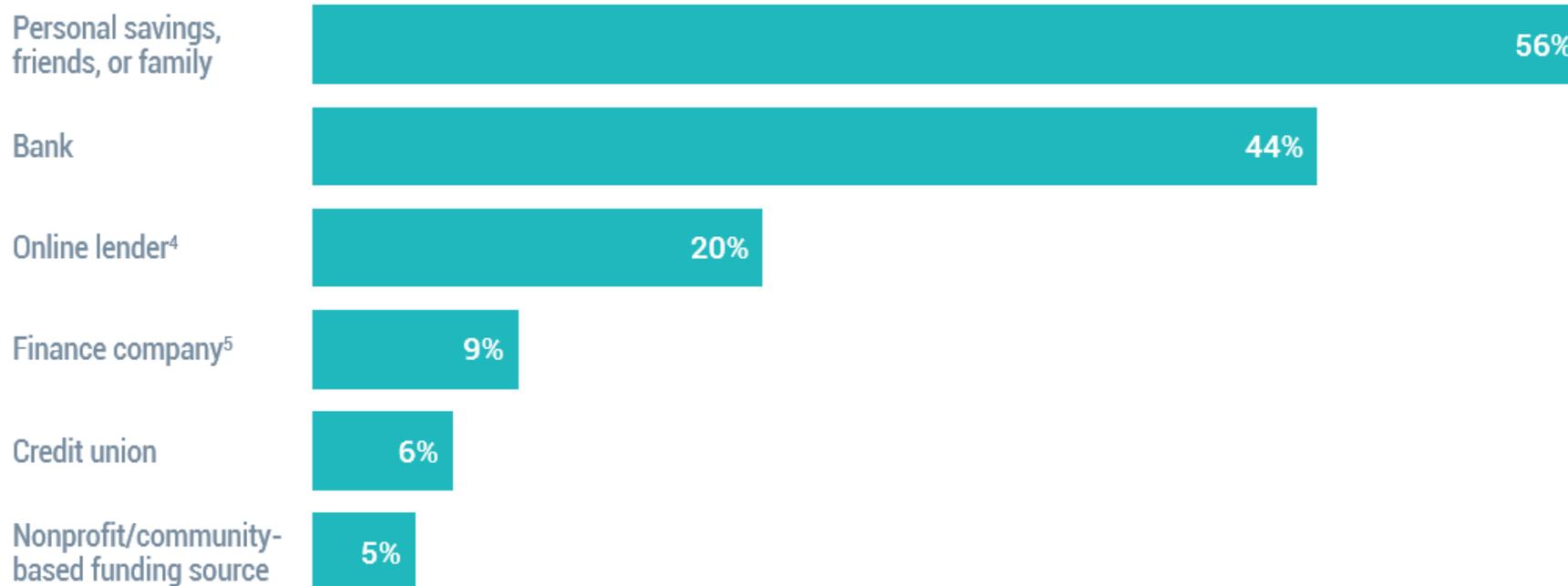
# Small businesses rely on personal credit and assets

## USE OF PERSONAL AND BUSINESS CREDIT SCORES (% of employer firms)

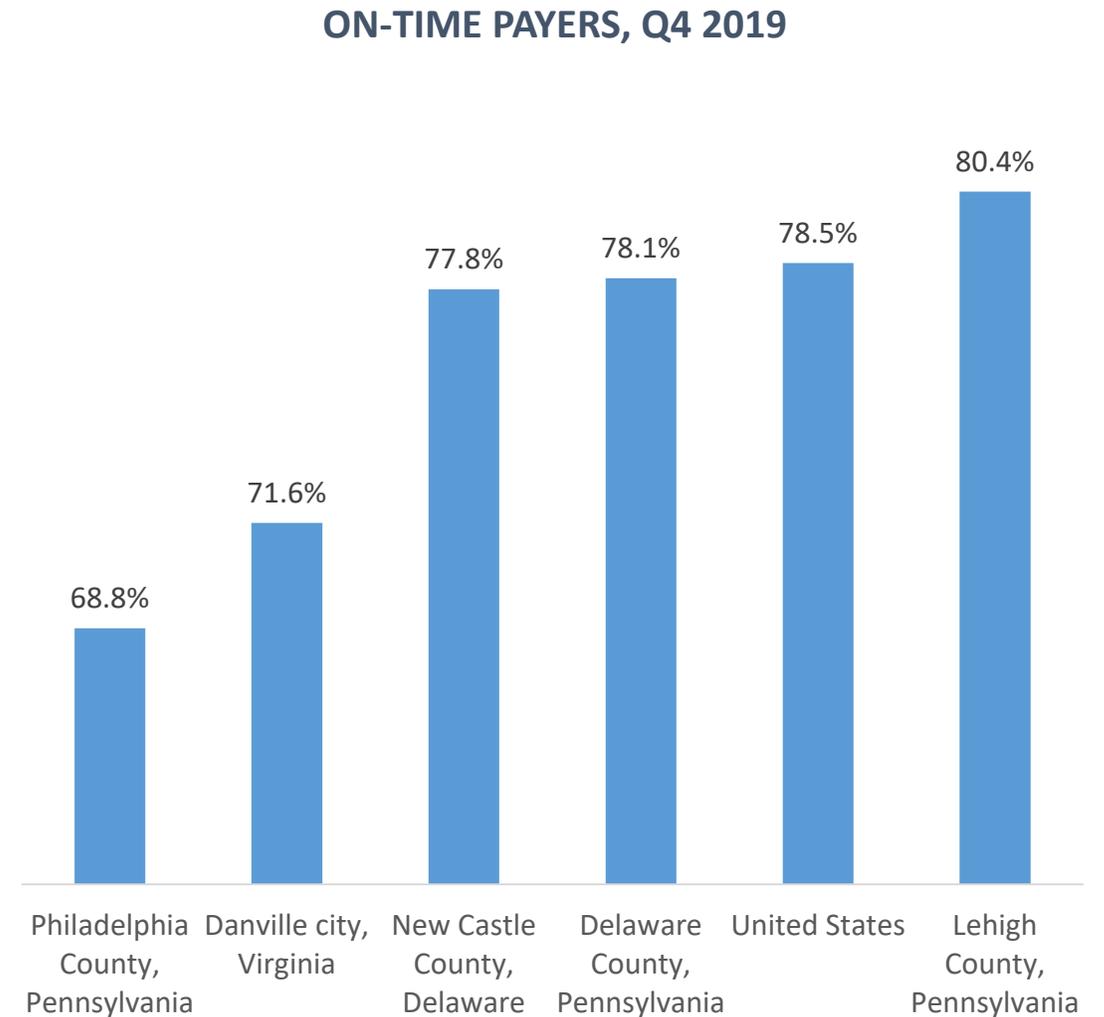
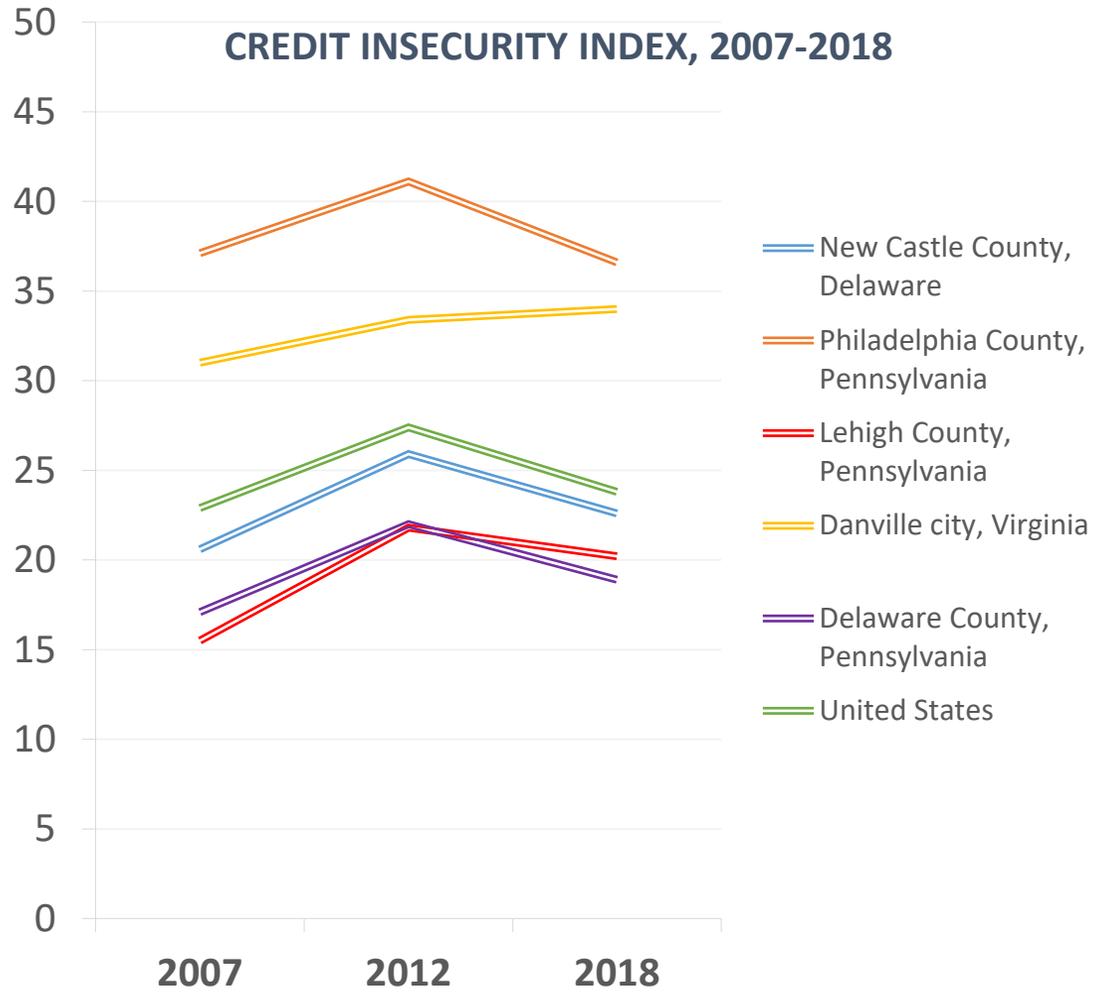


■ Business score only ■ Owner's personal score only ■ Both business and personal scores

## FUNDING SOURCES USED IN THE LAST FIVE YEARS (% of employer firms)

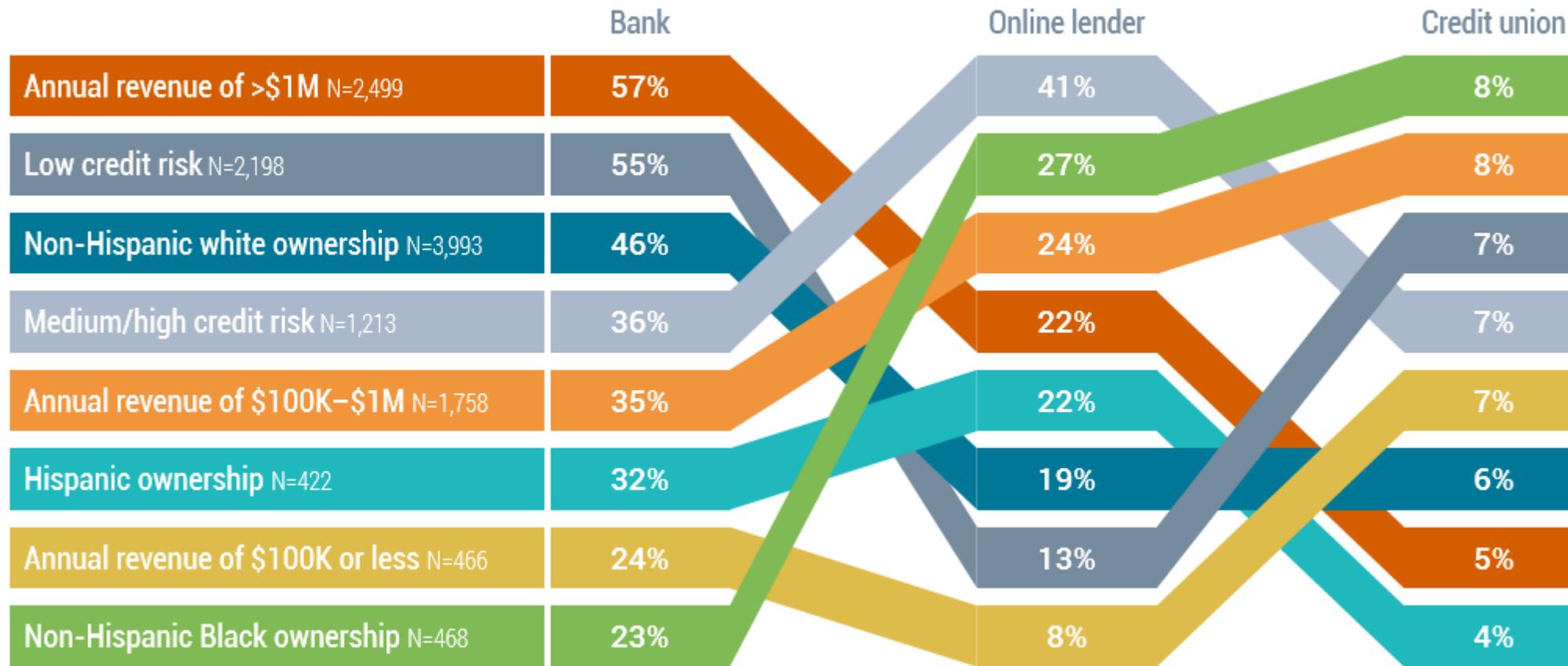


# Credit insecurity generally declined after 2012, but credit health varies across places



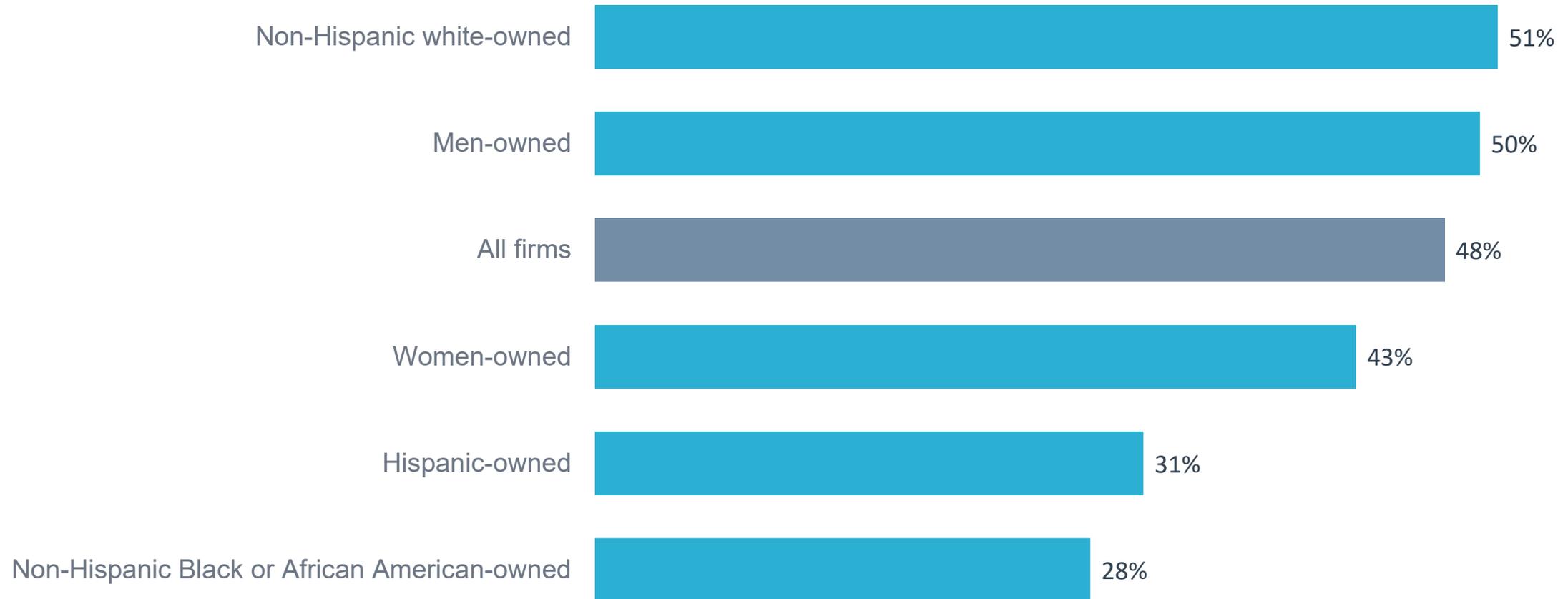
# The majority of smaller firms and minority-owned firms lack bank funding

TOP SOURCES OF FUNDING IN THE LAST 5 YEARS  
(% of employer firms)



# Only half of small businesses met their funding needs

## PROPORTION OF SMALL BUSINESS OWNERS WITH FUNDING NEEDS MET (% of employer firms)



# Paycheck Protection Program provided necessary support for small businesses but highlighted relationship gaps

MSA	Employer Firm Count (under 500 employees)	Employer Firm Job Count	PPP Loan Count (employer firms)	PPP Coverage Rate (loan count/employer firm Count)
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	110,384	1,236,305	76,566	69%
Allentown-Bethlehem-Easton, PA-NJ	13,365	147,305	8,567	64%

Source: Brookings Institution, <https://www.brookings.edu/blog/the-avenue/2020/07/14/across-metro-areas-covid-19-relief-loans-are-helping-some-places-more-than-others/>

<b>Average Loan size: \$105K</b>	<b>81% of all loans were \$100K or less</b>	<b>12% of business owners of color received amount of aid requested in April/May</b>
----------------------------------	---	--

Sources: U.S. Treasury Department, <https://home.treasury.gov/system/files/136/SBA-Paycheck-Protection-Program-Loan-Report-Round2.pdf>  
 Global Strategy Group, UnidosUS and Color of Change, <https://theblackresponse.org/wp-content/uploads/2020/05/COC-UnidosUS-Abbreviated-Deck-F05.13.20.pdf>

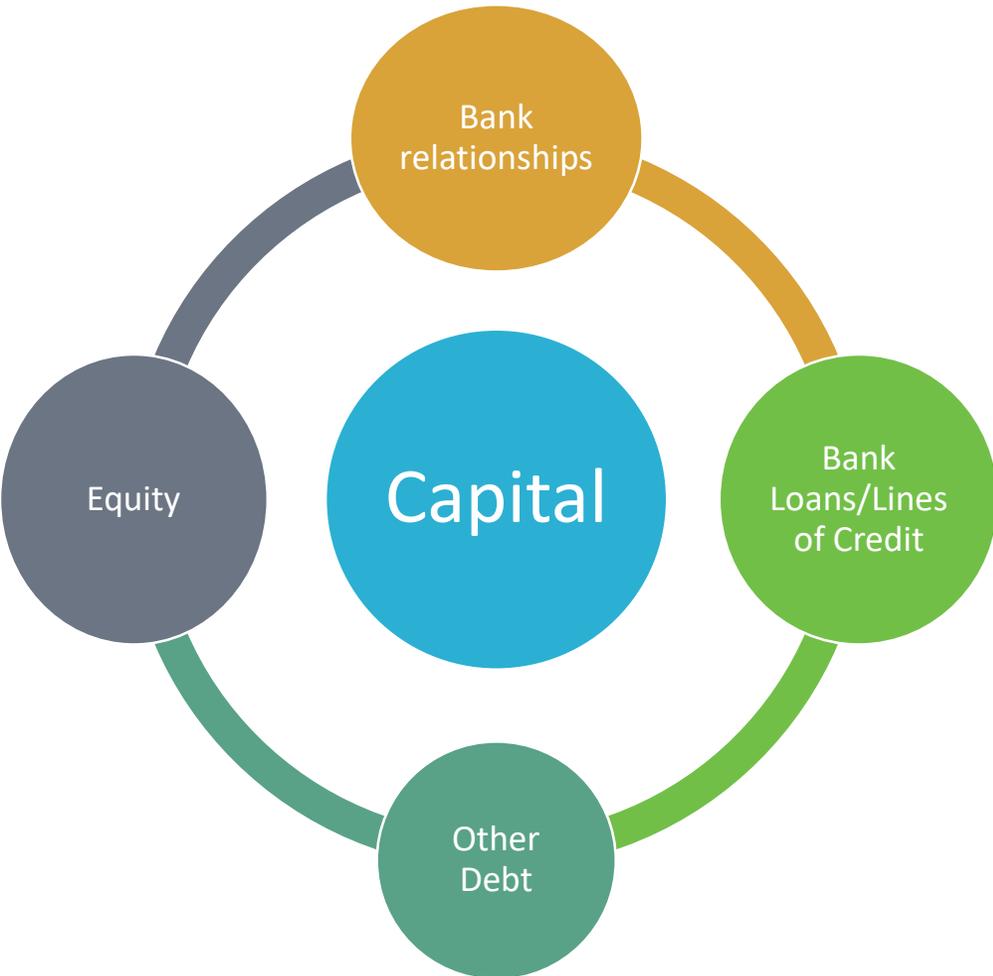
## Top PPP lenders varied by area and included regional and national lenders\*

PHILADELPHIA 2 <sup>ND</sup>	PHILADELPHIA 3 <sup>RD</sup>	DELAWARE COUNTY, PA	LEHIGH COUNTY, PA	NEW CASTLE COUNTY, DE	DANVILLE, VA
Citizens Bank	First National Bank of Pennsylvania	Northwest Bank	TD Bank	Wilmington Savings Fund Society	Atlantic Union Bank
TD Bank	PNC	First National Bank of Pennsylvania	Citizens Bank	Manufacturers and Traders Trust Company	Truist Bank
PNC	Northwest Bank	CNB Bank	PNC Bank	PNC Bank	American National Bank and Trust Company
The Bryn Mawr Trust Company	Citizens Bank	First Commonwealth Bank	Univest Bank	TD Bank	Benchmark Community Bank
Wells Fargo	NexTier Bank	Kish Bank	Truist Bank	Citizens Bank	Virginia National Bank
Republic Bank	First Commonwealth Bank	PNC Bank	Fulton Bank	Fulton Bank	Bank of America
Bank of America	CNB Bank	S & T Bank	Wells Fargo	Wells Fargo	Wells Fargo
Wilmington Savings Fund Society	The Huntington National Bank	The Farmers National Bank of Emlenton	Wilmington Savings Fund Society	Bank of America	The First Bank and Trust Company

Source: National Community Reinvestment Coalition, <https://ncrc.org/government-data-on-ppp-loans-is-mostly-worthless-but-its-not-too-late-to-fix-it>

\*NOTE: Top lenders shown are those for each corresponding Congressional District. Zip code level information is also searchable by the link in the source.

# Strengthening Infrastructure and Networks



## Financial Institutions

- CDFIs
- MDIs
- Community Banks
- Commercial Banks
- Credit Unions

## Local Networks

- Chambers of Commerce and business groups
- Service providers (SBDCs, SCORE)
- Faith based organizations

## Corporations and Anchor Institutions

- Corporate America
- Hospitals
- Higher Education

## Government Entities

- City government
- SBA
- MBDA



LEVERAGING  
THE GROWTH  
OF MINORITY  
SMALL  
EMPLOYER  
FIRMS FOR  
EQUITABLE  
ECONOMIC  
DEVELOPMENT

REINVENTING OUR  
COMMUNITIES

StepBack Collaborative

J. Jean Horstman

[jjeanhorstman@gmail.com](mailto:jjeanhorstman@gmail.com)

617 650 0722

July 24, 2020

# Contents

- Minority Small Employer Firms (MSEF)
- Why MSEFs Get Stuck
- Stage Appropriate Capacity Building
- Established Small Business Ecosystem
- Actor Mapping
- Ecosystem Approach to Problem-Solving
- Resources

# Why Minority Small Employer Firms (MSEFs)?

- Major employers in LMI communities: Anchor Institutions, Government, and Small Employer Firms.
- Only **net new job creators**.
- Highest potential to create **good jobs with livable salaries**.
- Survived start up with potential for further growth and greater resilience.

# MSEF PROFILE

- Revenues over \$150K to \$10MM
- 2+ full-time employees
- 3+ years in business
- Located in lower-wealth community and/or minority owned
- Initial success, but often stuck
- Owner buried in the business/isolated
- Continuing growth potential in local, state, regional and/or national markets

# TRUST DEFICIT



Isolation  
Little/No Bridging  
Social Capital

Doing Everything!  
Management/  
Leadership through  
Command and  
Control

Minority Business  
with Initial Success  
and Continued  
Growth Potential

“Employee Gap”.  
Reluctance or inability  
to hire staff needed  
for growth

Limited or no access  
to financial  
resources for growth

Unable or unwilling to  
integrate into regional,  
national international, or  
digital markets



# Successful Support – Capacity Building

## STAGE SPECIFIC BUSINESS CHALLENGE

- **Mutual Evolution** of the Business And the Business Owner.
- **Leadership shift** from Control and Direction *to* Delegation, Trust, and Processes

## LEARNING COMPONENTS

- Peer-to-Peer Cohort
- Habit-Forming—Behavioral Change
- Longitudinal and Iterative
- Stage Appropriate and Systemic (FastTrac® GrowthVenture™)
- Participatory and Facilitative Instruction
- Live case – Study own businesses
- **Intentionally connect to and build relationships within of ecosystem domains**

“We are glad you are here!”

### Conducive Culture

- Celebration
- Promotion
- Visibility/Recognition
- Engagement

### Talent

- Trained/available
- Workforce pipeline
- Resources to grow their talent

### Government

- Advocate
- Convener
- Infrastructure
- Customer Service Mentality

### Minority-Owned Businesses with Potential To Scale

- Access to Regional and National Markets
- Procurement
- Supplier Development

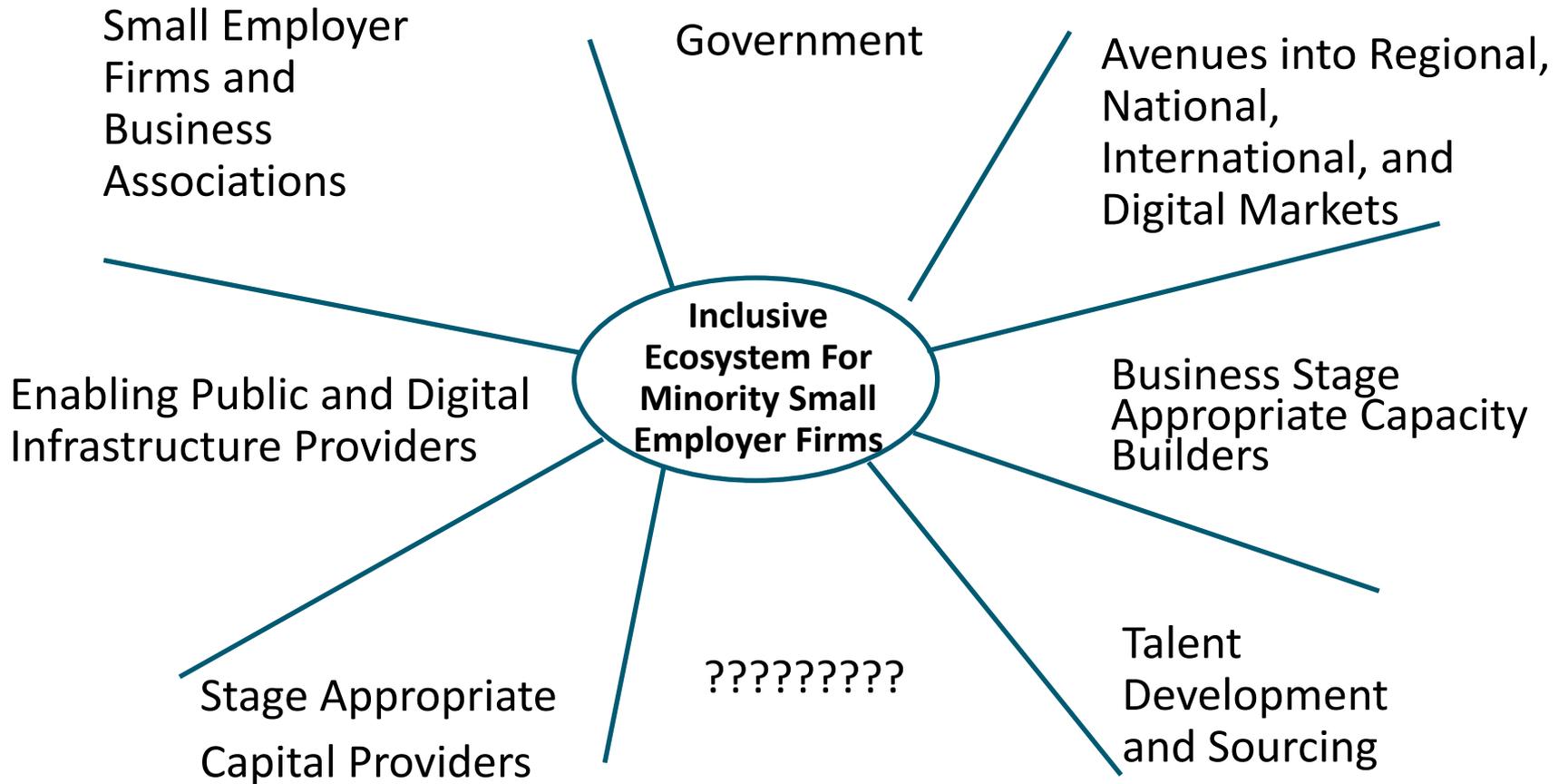
### Business Stage Appropriate Capacity Building



### Access to stage appropriate capital



TO OPTIMIZE  
THE WHOLE,  
WE MUST  
IMPROVE  
RELATIONSHIPS  
BETWEEN THE  
PARTS



# ECOSYSTEM ACTOR MAP

# Building and Maintaining Trust In An Ecosystem

- A learning and inquiring approach – “None of us knows how to do this; let’s learn together”
- Invite actors from each domain to the table
- Map the ecosystem, how domains interact with each other, existing actors, power, and gaps
- Adopt a common project to tackle the **key leverage point of capacity building**
- Surface **mental models** and explore how they **impact trust and equity**
- Play the long game to address underlying causes of problems

# Ecosystem Approach to Problem-Solving: Small Business/Good Jobs

---

**Convene a learning community reflective of ecosystem**

**Define the problem** – small employer firms seldom use workforce development funds to grow their people and meet their employment needs

**Inventory the resources** in the learning community

**Define existing blockages**

**Identify one to two low-risk, high-leverage ‘experiments’** that members of the group can try without needing to ask permission of anyone not in the group

**Try, learn, keep what works and identify next experiments**

**Repeat**





# On-Line Resources

- **Small Business Stages**
  - <https://hbr.org/1983/05/the-five-stages-of-small-business-growth>
- **Small Employer Firm Resilience**
  - <https://www.frbsf.org/community-development/publications/working-papers/2012/december/small-employer-firm-resilience/>
- **FastTrac® GrowthVenture™** (Free, Spanish and English)
  - <https://www.fasttrac.org/green/>
- **Actor Mapping**
  - <https://www.fsg.org/tools-and-resources/guide-actor-mapping#:~:text=An%20actor%20map%20is%20a,the%20players%20within%20a%20system.>
  - <https://systemsinnovation.io/actor-mapping-guide/>
- **Strategic Doing** (Tool for facilitating ecosystem collaboration)
  - <https://strategicdoing.net/>