

Capital Access & Credit Barriers Report

Prepared

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by

**The Business Resource Group
Small Business Capacity Enhancement Project
The Healthy Credit Practices Program**

(310) 644-2500



Summary Report

Capital Access & Credit Education Team

Business Resource Group's Small Business Capacity Enhancement Project, (SBCEP), Team received funding from the Southern California Edison, The UCLA Center for Community Partnership and The Corporation for National and Community Service, AmeriCorps*VISTA to assist identifying key obstacles that impact the growth and expansion of low income and disadvantaged business enterprises, and to use existing resources to develop and deploy new tools and trainings, that enhance the ability of both the small business and non-profit communities to address these obstacles.

The Capital Access & Credit Education, (CACE), Team is one of four SBCEP teams conducting outreach, gathering and analyzing data to develop and deploy new tools to help small businesses identify and overcome obstacles to development and growth.

The CACE team outreach activities occurred whenever attending and/or participating in events held for the benefit of the small business community. At these events materials on the SBCEP Project were distributed to create greater awareness of the project and its benefits to the LMI small business community. On six occasions, principals of the Healthy Credit Practices Guidebook were provided to LMI business as a part of the financial literacy program created by a project partner, JobStarts, Inc.

The tools and trainings are designed to eliminate barriers to growth faced by small businesses include the Healthy Credit Practices Guidebook, Tips and Curriculum as well as the Healthy Credit Practices Website. These tools address the needs of small businesses in their quest for capital and greater understanding of the commercial credit process. Part of the process includes an assessment of the small business in order to identify areas of weakness and develop a strategy for building a solid financial foundation.

The CACE team utilized two methods to gather data; Surveys and Denial/Barrier Analysis Reports.

SURVEY METHODOLOGY

CACE team members developed the Business Obstacles & Capital Accessibility Survey in English and Spanish, the Capital Accessibility & Credit Obstacles Survey and the Capital Access and Credit Education Survey to capture the capital access and credit education experience of the small business owner as well as identify challenges facing small business owners. The methods of distribution were as follows:

1. Neighborhood canvases in LMI business districts of Los Angeles County, Fresno County and Kern County. Project team members walked door-to-door distributing surveys and project materials to 250 small business owners.
2. Hosting/co-hosting community events in Central Los Angeles, Korea Town and Inglewood. Over 300 small business owners were invited from the local community where CACE team members distributed surveys, program materials and made presentations.
3. Partnering community-based organizations and nonprofits created opportunities for conducting capital accessibility and credit education surveys. Team members distributed surveys during six capital access and financial literacy seminars presented by partnering organization, JobStarts, and the CACE team.
4. Partnering with large vendors and contract procurement agencies like the Los Angeles Unified School District and the Metropolitan Water District to distribute surveys at the 12th Annual Greater Los Angeles Vendor Fair. Team members solicited surveys from attendees on the exhibition floor, at sponsor booths and at nine of fifteen workshops.
5. Online versions of the surveys were created with the support of project partner Zoomerang. Team members created surveys and links to surveys to be embedded in

email messages and other web sites. The data compiled from online surveys can be reviewed using statistical analysis tools provided by Zoomerang.

DENIAL/BARRIER ANALYSIS METHODOLOGY

CACE team members developed denial and barrier analysis forms to compile data on factors that lead to declined business loan requests among small business owners. The project team collaborated with 7 bankers and two community organizations, as well as The Greater Los Angeles Vendor Fair Committee and the Metropolitan Transportation Authority’s Business Advisory Council to collect and compile data on the reasons for denial of business loan requests. These live cases allowed the CACE team to see in real-time what factors contribute to loan denials among small business owners, particularly in LMI communities.

SURVEY RESULTS

The Project team created the Capital Accessibility and Credit Obstacle survey to distribute at the 12th Annual Greater Los Angeles Vendor Fair. Also, the survey was available online with a link sent to attendees in advance of the event with a goal of receiving an overall 15% response rate. The survey generated 118 respondents from a pool of 1,000 small business owners (approximately 12%) completing the survey.

The demographic profile of this group is as follows:

Five or more years in business	57%
Minority owned	73%
Less than five employees	57%
Service Industry	52%
Less than \$100K in annual sales	30%

Presented below is the response results received on the question related to capital and business growth:

Question – Which of the following areas would you find most valuable for your company as it relates to obtaining capital to support your business growth?

Responses/Percentages

Areas	#	%
Understanding business loan criteria used by banks	33	30%
A detailed explanation for loan denial reasons	13	11%
Training/assistance on how to get loan approval after being denied	17	14%
One-on-one assistance in completing a loan application package	20	17%
Understanding ways to build long-term business credit for my company	37	31%
Help to improve my understanding of my company's financial statements	15	13%
Centralized credit referral assistance to get to sources that can help me	18	15%
Assistance to resubmit a credit application after correcting defined deficiencies	7	6%
Access to tips, resource material and tools on building business credit	38	32%
Other, Please Specify	3	3%

The top three responses were: 1) *Understanding business loan criteria used by banks,(30%),* 2) *Understanding ways to build long-term business credit for my company, (31%)* and 3) *Access to tips, resource material and tools on building business credit, (32%).*

CACE team members distributed the Business Obstacles & Capital Accessibility Survey at various outreach events, excluding the LA Vendor Fair, and credit training sessions with project partner JobStarts. The survey generated 64 respondents from 415 distributed.

The demographic profile of this group is as follows:

Less than one year in business	41%
Minority owned	83%
Less than five employees	69%
Service Industry	67%
Less than \$100K in annual sales	73%

The responses from this survey regarding capital access and credit education are as follows:

Question – What are the biggest growth challenges or obstacles does your company face?

Responses/Percentages

Challenges/Obstacles

%

Getting new customers and/or contracts	29	50%
Meeting delivery or service deadlines	3	5%
Business financing or cash flow to meet daily overhead/operating expenses	27	47%
Getting the most out of employees or employee commitment level	10	17%
Staff turnover and/or finding quality employees with needed skills/commitment	6	10%
Time to manage all the business needs	18	31%
Relationships with customers or suppliers	3	5%
Problems with our bank	1	2%
Other, Please Specify	6	10%

The top three responses were: 1) *Getting new customers and/or contracts*, (50%), 2) *Business financing or cash flow to meet day-to-day overhead & operating expenses*, (47%) and 3) *Understanding ways to build long-term business credit for my company*, (31%).

Question – How has your company financed its business capital needs?

Responses/Percentages

Financing Sources

%

Money from owners or family	49	84%
Commercial bank loan	6	10%
Personal credit cards	13	22%
Money from home loan	4	7%
Borrowed money from friends	3	5%
Other, Please Specify	6	10%

The top two responses were: 1) *Money from owners and family*, (84%), and 2) *Personal credit cards*, (22%).

Question – Have you ever received materials or has anyone ever helped you understand how a bank determines whether or not a business is considered creditworthy?

Responses/Percentages

Yes/No

%

Yes	23	39%
No	36	61%

Question – Is it something that you would see as valuable to you or other small business owners?

Responses/Percentages

Yes/No

%

Yes	52	88%
No	7	12%

It is clear from the last two questions that 1) *Small business has not been provided information on business creditworthiness, (61%), and 2) Small businesses see value in having that information on creditworthiness, (88%).*

Survey Summary

The aforementioned survey data validates some of the needs of small business owners; A clear understanding of the commercial credit process in order to participate in the process and obtain capital, which is a critical need for the continual growth and development of the small business.

DENIAL/BARRIER ANALYSIS RESULTS

CACE team members obtained denial information on 35 small businesses from lending partners with the following demographic profile:

	0-3	4-9	10+
Years in business	25	4	6

	Low	Mod	Mid	Upper
Geo Code	0	20	14	1

Of the 35 denials tracked by the CACE team members, 29 or 83% had been turned due to negative information reported on the personal and/or business credit report of the borrower. In 13 of the 29 with negative credit history, (45%), had excessive debt or leverage either personally or within the business which was another contributing factor of the denial.

Denial/Barrier Tracking Summary

Based on the denial/barrier data compiled, small business owners need to understand the role personal/business credit decisions play in the commercial credit process. It is clear that too much debt is not only unfavorable but may become unmanageable which could lead to a negative credit history from missed and/or late payments.

CONCLUSION

CACE activities have demonstrated the need for a greater understanding of the commercial credit process in order to improve the access to capital of new business looking to expand. In addition, business owners denied credit need a strategy to overcome the credit obstacles in order to continue to grow and develop.

At the end of the last financial literacy training with JobStarts, a training evaluation was provided to attendees and 92% of the respondents listed the prospective of lending institutions and bankers on creditworthiness as something they found useful or they learned as a result of the presentation. Two of the attendees requested membership to the HCP Small Business Member Program

The tools under development by CACE team members and partners will address these issues by teaching the basic guidelines used by lenders to evaluate a business and its credit request. The tools will help business owners understand financial terms and how they relate to

creditworthiness and risk. In addition, assessment tools will be available for small business owners in order for them to identify areas of weakness and find the appropriate assistance.