

AMERICAN BANKER

BankThink **High level of trust in SBA creates opportunities to boost access to capital**

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May 20, 2022,

The pandemic may be receding, but the economic impact it had on small businesses across the country has its own long tail. After facing many months of depressed demand, small-business owners now must respond to inflation, tight labor markets and supply-chain disruptions.

Without a financial cushion, too many small businesses on MLK Boulevards, Cesar Chavez Ways, in Chinatowns and on Main Streets remain at risk.

Yet, capital that could provide that cushion remains out of reach for many small-business owners, especially entrepreneurs of color. Our new survey of more than 2,500 diverse small-business owners assessing confidence in their ability to fund common business needs and measuring their trust in various sources of capital paints a nuanced picture as to why.



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It turns out that the existence of willing lenders is just one part of the problem. To be sure, small-business owners need access to financing, but often they don't know where to turn for the capital they need and lack trusted guidance to help make strategic choices for the health, resilience and growth of their businesses.

When asked whether they could find the funds to cover an unexpected \$5,000 business expense, 45% of the small business respondents said they were not confident that they could do so. There are important distinctions within that group. While one in four white business owners was certain they could get the money, only 11% of Black and 16% of AAPI and Hispanic business owners shared that confidence.

That means a busted refrigeration unit, a disruption to their website and online store or the need to replace a delivery van could jeopardize the survival of an unacceptable number of our country's small businesses.

And it's not just the unexpected expenses that are an issue. Growth opportunities that require funding are too frequently deemed out of reach, particularly for entrepreneurs of color. The majority of the AAPI, Black and Hispanic business owners surveyed were not confident that they had funds on hand or could obtain the financing needed to invest in marketing, make a new hire or get going with a contract or purchase order.

While all of the respondents had roughly the same expectations about the likelihood of getting external financing, white business owners were up to three times more likely to have the cash on hand to fund these opportunities than entrepreneurs of color. This gap highlights differences in the underlying financial health of businesses owned by entrepreneurs of color — and the need to strengthen them.

Fortunately, the survey pointed to opportunities to do so by building and deepening trusted relationships with small business owners to close these gaps in financial health and capital access — including an opening for public-private partnerships.

Though trust in institutions — government chief among them — is hard to come by these days, the U.S. Small Business Administration, in an unexpected surprise, earned the highest marks for trust and familiarity in the survey. This creates an opening for the SBA to serve as an effective connector to responsible private-sector lenders and sources of business guidance.

Partnering with the private sector is not new for the SBA. It has long provided guarantees to banks to reduce the risk of small-business lending. During the pandemic, it worked with those same banks in addition to developing new relationships with fintech lenders and community financial institutions to deliver billions in COVID small-business relief. This powerful public-private partnership should now expand and evolve to reflect this broader range of lenders and other trusted partners that can meet the financing and guidance needs of small businesses.

Digitally native fintech companies, for one, are uniquely positioned — with online applications, algorithms that quickly process qualifications and the reach of the internet — to meet small-dollar financing needs of many small businesses. PayPal, for example, has originated more than \$22 billion in small-business loans since 2014. Recent research from the company shows that these loans are going to borrowers disproportionately located in areas lacking financial service options. The fact that 89% of those loans are under \$25,000 shows the potential of fintech lenders to deliver relatively small amounts of capital to small businesses quickly and efficiently.

Community financial institutions — including community development financial institutions and minority depository institutions — also must become a larger part of the SBA private-sector lender network. By design, these lenders work closely with small-business applicants and provide culturally competent advice, coaching and guidance in addition to financing.

Yet business owners are generally not familiar with either fintech lenders or community financial institutions. While banks and credit unions are well known among the business

owners we surveyed, fewer than 10% sought financing from a CDFI, almost half of respondents do not know about MDIs, and 41% of respondents are not familiar with online lenders.

Government has an exciting opening to use its unprecedented reach and newfound trust among small- business owners to partner and connect Main Street entrepreneurs to sources of capital and guidance that can help them grow, hire and achieve their American Dream. Let's seize it.

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