

Key Research Findings

A sampling of research, compiled below, illustrates the challenges faced by small business owners in accessing credit, including disparities in access faced by women and minority small business owners. The research also shows that there is widespread support for ensuring small business lending is conducted transparently and fairly—a central goal of the Responsible Business Lending Coalition.

Sources of Capital for Small Businesses

Small business employer firms say the top financial challenge they face is “credit availability or securing funds for expansion,” according to the [2016 Federal Reserve Small Business Credit Survey](#).

For smaller firms with less than \$1 million in revenue, more than two thirds (70%) sought financing of under \$100,000, according to the same [2016 Federal Reserve survey](#).

Bigger banks—traditionally the main source of financing for small businesses—are making fewer small business loans than they once did. Large bank small business loan originations in 2014 were only 50% of pre-recession levels, according to [Harvard University researchers](#).

While a majority of small firms continue to apply for credit at banks, one in five turned to an online lender in 2016, according to the [Federal Reserve](#).

Racial and Gender Disparities in Accessing Capital

The lack of access to capital is greater in some communities than others. Among firms with gross receipts under \$500,000, loan denial rates for minority firms are about three times higher, at 42%, compared to those of non-minority-owned firms (16%), according to the [Minority Business Development Agency](#). Minority firms also pay 7.8% on average in interest rates for loans compared with 6.4% for non-minority firms.

Minority firms are more likely to seek financing from online lenders. Among black and Hispanic-owned firms, 33% and 36% respectively applied for financing online, while fewer than 20% of white-owned firms applied for funding from an online lender in 2016, according to the [Federal Reserve](#).

Black- (17%) and Hispanic-owned (19%) firms are at least twice as likely to seek financing via merchant cash advances and factoring (i.e., the sale of accounts receivable) compared with white-owned firms (7%), according to the [Federal Reserve](#).

Women business owners also face hurdles accessing capital. Among firms that recently applied for credit, women-owned firms applied for business loans at a similar rate as male-owned firms, but were significantly less likely to receive financing (47% success compared to 61%), the [Federal Reserve survey](#) found.

Women- and minority-owned firms reported that they did not apply for loans because they felt they would not be approved at higher rates than firms owned by white males, according to the [Federal Reserve](#).



Responsible Business Lending

A large majority (78%) of small business owners say that high interest, high fee loan products are a problem, according to [recent polling](#) by Small Business Majority. The poll also found that 80% of small business owners believe online small business lending should be regulated.

Whether applying to large banks, small banks or online lenders, owners of employer firms who successfully obtained a loan but were dissatisfied with the service cited lack of transparency as the main reason, the [2016 Federal Reserve survey](#) shows.

The annual percentage rate of alternative loans and merchant cash advances can be high. Many alternative lending platforms charge yields ranging from 30% to 120% of the loan value, depending on the size, term duration and risk profile of the loan, according to [Harvard researchers](#). An [analysis](#) by Opportunity Fund of 104 of its California borrowers seeking refinancing for these types of loans found an average APR of 94%, with one loan reaching 354%.

Responsible Business Lending Coalition members share both a commitment to innovation in small business lending aimed at making credit more accessible, and serious concerns with the rise of predatory and irresponsible lending practices in the small business lending market. To promote responsible practices and combat abusive practices in small business lending, the coalition created the Small Business Borrowers' Bill of Rights, a cross-sector consensus on the six fundamental rights that small business owners deserve. We encourage the entire small business financing industry and policymakers to join us in upholding these rights.

Information on the Rights and how to become a signatory or endorser can be found on the coalition website, www.borrowersbillofrights.org, or you can contact us directly at info@borrowersbillofrights.org.