

Small Business Road Map to Financial Resources

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Purpose

This report provides a road map to help banks and small businesses navigate the federal resources designed to help meet the credit needs of small businesses. This road map summarizes a variety of programs that can be used on the state and local level and compiles additional resources and information that banks and businesses may find useful.¹

In 2018, the OCC hosted a series of listening sessions to understand the challenges small businesses² encounter in meeting their financing needs. Participants discussed these challenges and the importance of local stakeholders, support organizations, and financial institutions in helping businesses to meet them. Support organizations are needed to provide training, technical assistance, and mentoring for business owners, identify and support talented entrepreneurs, and address the regulatory issues that favor large incumbents over newer, more innovative entrants.

Financial institutions are an important source of financing for small businesses, but participants in the listening sessions described two concerning trends. One was a decline in the number of physical bank branches, minority depository institutions, and credit unions in certain communities. Participants said the lack of local financial institutions constrained access to capital for small businesses.³ The other concern was that the decision-making ability of the surviving institutions would not always be local. Community development financial institutions were filling some gaps, and could play a greater role in the future, but these institutions tended to be small and need greater resources to meet the needs of the small businesses they serve.

The participants also noted that businesses require a variety of financing products to meet their needs at different stages in their growth and development. While financing products are generally provided by a variety of types of institutions with different goals, risk appetites, products, and expertise, participants said that capital without an expectation of short-term financial return was particularly needed. This ecosystem would include regulated financial institutions, mission-focused lenders, public entities, and equity providers.

The use of technology in the financial sector was perceived as an opportunity and a challenge by listening session participants. Financial technology,⁴ often referred to as fintech, can lower the costs of transactions, making it easier for small business owners to find and apply for the right

¹ This document does not constitute agency policy or guidance. Program inclusion in this document does not constitute agency endorsement.

² The U.S. Small Business Administration (SBA) defines a small business using size guidelines for the different categories of business enterprises, which include agricultural production, communications, manufacturing, retail, service, transportation and warehousing, and wholesale. Size is determined by the amount of average annual receipts or by the number of employees. More information about the size standard tool can be found [here](#).

³ Hoai-Luu Q. Nguyen. “[Are Credit Markets Still Local? Evidence from Bank Branch Closings](#),” *American Economic Journal: Applied Economics* 2019, 11(1): 1–32.

⁴ Throughout this document, “financial technology” and “fintech” are used interchangeably. OCC defines financial technology as a line of business based on using software to provide financial services. Financial technology companies are generally startups founded with the purpose of disrupting incumbent financial systems and corporations that rely less on software.

type of financial product. However, participants expressed that existing community-based lenders may face barriers in accessing this technology. Additionally, they raised concerns about problems with transparency and potentially exploitive or discriminatory practices among nonbank technology-based lenders.

Background

Small businesses are critical to the U.S. economy. The more than 30 million small businesses operating in the United States account for 44 percent of the nation's GDP as of 2014.⁵ Small businesses employed 58.9 million people, or nearly half of the workforce, in 2018, including the 1.9 million new jobs that were added by small businesses.⁶ In 2015, U.S. small businesses generated 21 percent of the patents in the United States,⁷ and nearly 98 percent of businesses exporting goods from the United States in 2015 were small businesses.⁸

The dynamism of the small business sector has been slowing, however, meaning there are fewer new firms revitalizing the economy, providing competition to existing firms, and creating new ways of doing things. Business startup rates have decreased significantly over the last 30 years.⁹ While start-ups have been declining for decades, more recent trends have raised concerns about potential structural changes affecting U.S. productivity.¹⁰ As the nation moves to a majority-minority population, it is critical to address the current low rates of small business ownership by minorities and women¹¹ in order to maintain a robust small business sector.¹²

Small businesses need access to capital. Without adequate financing, most entrepreneurs cannot start new businesses or grow their existing ones.¹³ Funds are needed to purchase business assets,

⁵ [Small Business GDP 1998–2014](#) by Kathryn Kobe and Richard Schwinn U.S. Small Business Administration Office of Advocacy Release Date: December 2018.

⁶ [2018 Small Business Profile](#), Small Business Administration.

⁷ [U.S. Patent Office 2016 Annual Report](#).

⁸ 2018 Small Business Profile.

⁹ JPMorgan Chase, [Small Business Data Dashboard](#).

¹⁰ Ben Casselman, "[A Startup Slum is a Drag on the Economy. Big Business May be to Blame](#)," *The New York Times*, September 20, 2017.

¹¹ The Hamilton Project, [Minority and Women Entrepreneurs: Building Capital, Networks and Skills](#), Discussion Paper 2015-03, March 2015.

¹² "[A Pivotal Period for Race in America](#)," *Diversity Explosion: How New Racial Demographics Are Remaking America*, William H. Frey, Brookings Institution Press, 2015, pp. 1–20. See also "Disparities in Capital Access between Minority and Non-Minority-Owned Businesses: The Troubling Reality of Capital Limitations Faced by MBEs," MBDA, January 2010, MBDA; and "Small Business Facts Spotlight On Minority-Owned Employer Businesses," SBA Office of Advocacy, May 2019.

¹³ [U.S. Senate Committee on Small business and Entrepreneurship](#)

such as buildings and equipment, to establish products and markets, and to develop inventory. Funds are needed for cash flow management, which is among the key determinants of small business performance and survival.¹⁴ While retained earnings and personal funds are often the first choice of business owners to fund operations, 70 percent of employer firms had outstanding debt in 2018, and 43 percent had applied for financing over the previous 12 months.¹⁵ About half (47 percent) of firms that applied for financing received all of the financing they sought.¹⁶

Though the share of minority- and women-owned businesses has increased significantly, they face additional challenges. For example, minority- and women-owned businesses are often smaller, less profitable, and less likely to stay in business than male- and non-minority-owned businesses.¹⁷ Minority small business owners, especially those who identify as Black or Latino, are disproportionately denied credit and discouraged from applying for credit.¹⁸ According to data reported by SME Finance Forum, in 2018 there was a global funding gap of \$1.5 trillion between the financing needs of women-owned small and medium businesses and the institution-based financing available to them.¹⁹ This gap causes small businesses, both female- and male-owned, to seek alternative funding options.

Banks remain the principal source of external credit for small businesses,²⁰ although that share is dropping. The outstanding amount of small business loans (\$1 million or less) at institutions insured by the Federal Deposit Insurance Corporation (FDIC) peaked at \$711.5 billion in 2008, dropping after the financial crisis to \$585.3 billion in 2013. Since then, the amount outstanding has been growing slowly to \$632.50 billion in 2018.²¹ However, loans from online lenders²² have increased dramatically over the last few years. According to a 2018 S&P Global survey, 27 percent of small businesses took a loan from digital lenders²³ in 2018, nearly double the percentage in 2017.²⁴ While large banks hold the largest share of bank loans to small businesses,

¹⁴ JPMorgan Chase, “[Facing Uncertainty: Small Business Cash Flow Patterns in 25 US Cities](#),” August 2019.

¹⁵ [Federal Reserve Small Business Credit Survey Report on Employer Firms 2019](#)

¹⁶ Ibid.

¹⁷ Small Business Administration Office of Advocacy, “[Access to Capital for Women- and Minority-owned Businesses: Revisiting Key Variables](#),” January 29, 2014.

¹⁸ Ibid.

¹⁹ SME Finance Forum, “[Catalyzing Growth in the Female SME Economy](#),” September 2019

²⁰ Ibid. See also SBA Office of Advocacy, [Small Business Lending in the United States 2016](#), September 2018.

²¹ Congressional Research Service, “[Small Business: Access to Capital and Job Creation](#),” updated July 16, 2019.

²² The OCC defines online lending as peer-to-peer or person-to-person money transfers online that do not require a bank.

²³ For the purposes of this road map, the term digital lenders is used interchangeably with online lenders.

²⁴ S&P Global Market Intelligence, “[2018 Small Business Survey Shows Digital Lenders Gaining Ground](#),” May 8, 2018.

community banks have larger shares of small business loans relative to their assets.²⁵ In addition, community banks receive the highest satisfaction rates from small businesses among all lending sources, including nonbanks.²⁶ The number of community banks, however, has been declining for decades. The use of online lenders has grown significantly over the past two years, especially among medium to high credit risk borrowers.²⁷

Before Small Business Applicants Approach Lenders

Accessing external sources of credit, such as bank loans, can be an important step in a growing business. Making a responsible choice, however, requires a small business owner to carefully consider the opportunities and risks inherent in external sources of credit. Accessing credit can provide significant opportunities for a small business, as the funds may allow the business to take on new opportunities, improve operational efficiency, increase profitability, and grow. Responsible use of credit helps a business obtain additional credit in the future as the business owner establishes relationships with lenders and builds a successful track record of loan repayment.

Access to credit, however, has risks for the business. If the loan is not repaid, business or personal assets may be taken to fulfill the obligation, and the business owner's future ability to borrow may be compromised. In addition, holding too much debt may make it difficult for a small business to borrow additional funds should new opportunities emerge in the future.

Choosing the right small business loan requires business owners to consider many factors, such as credit score, finances, interest rates, the length of time the business has been in operation, and the need for a credit facility. Once small business owners determine which factors are most important to their businesses, they can determine the right option to access the capital and credit needed to grow.

Small businesses often have a business plan that describes what the business does and its opportunities for growth and development. Small businesses may also have a carefully considered strategy to achieve those identified opportunities. A business plan is an important tool for start-ups or established firms looking to grow or pivot in a changing market environment, and they are typically required by banks before making a loan. To promote good decision making, the plan should be built from a comprehensive understanding of the current financial position of the business and prudent projections of future revenues, expenses, and cash flows.

The small business owner seeking credit should also consider how a lender looks at a loan request and prepare accordingly. The lender draws on a number of sources to determine the risk of non-repayment, and the sources of that information can vary among lenders. Most bank

²⁵ Daniel Brown, [Spotlight on Community Bank Lending](#), SBA Office of Advocacy, September 2019.

²⁶ [Federal Reserve Small Business Credit Survey Report on Employer Firms 2019](#).

²⁷ Ibid.

lenders consider the applicant's credit history, often through reports on the business and owner obtained through the national credit bureaus. The applicant can obtain copies of those credit reports before applying for credit and address any issues that may influence the lender's decision on the application. The lender also uses financial statements and tax returns to accurately assess the applicant's financial position.

The lender also wants to understand the applicant's business experience. Start-ups generally have a higher non-repayment risk than established businesses with documented business performance. When financing business growth, the lender wants to understand the reasonableness of the market and financial assumptions. This may be challenging if the lender is not familiar with the type of business being financed or if the business is operating in a new or rapidly changing market.

The lender may seek collateral for the loan by asking for security or guarantees on its extension of credit. Applicants may be asked to pledge business or personal assets that, in the event of non-repayment, may be liquidated and used to repay the obligation.²⁸ Associates of the applicant, or even public entities, may pledge guarantees that they will repay the obligation in the event of non-repayment.

Entrepreneurs may find it helpful to seek assistance from the wide array of resources that can help them plan for business expansion and prepare requests for credit. Help with business plans or specific technical problems is available through programs like the U.S. Small Business Administration's Small Business Development Centers, SCORE, Veterans Business Outreach Centers, Women's Business Centers, and the 8(a) Business Development Program for minority-owned firms. Many public and private entities offer contracting opportunities that can establish a revenue stream for new and growing small businesses. Low-cost "incubator" space for fledgling businesses, mentoring relationships with established entrepreneurs, and sustained assistance through growth strategies may also be available.

Choosing the right lender can be an important factor in developing a successful lending relationship. Small business owners seeking credit have a variety of options, and those choices have expanded significantly with the introduction of online lending. Banks, including community banks, continue to be a foundational choice for many small business owners. In addition to credit, banks can provide a variety of additional financial services, including deposit accounts, treasury management, automated clearing house services, and foreign exchange.

An important decision for applicants is the type of relationship they want to have with their lender. Transactional lenders typically spend less time getting to know owners and their businesses and instead rely largely on security or quantitative indicators (like credit scores) to assess the risk of non-repayment. Loans from transactional lenders can be convenient, but the cost of the credit may vary considerably, and not all applicants qualify. Relationship lenders spend more time getting to know owners and their businesses, which can result in more appropriately crafted credit products and other financial services. In some cases, if a loan application cannot be funded, the lender may work with applicants to identify alternatives for

²⁸ Liquidation of assets is generally a last resort in the event of default. Non-repayment may be temporary and a lender may consider refinancing or restructuring debt.

accessing credit. For example, a bank lender may refer a prospective applicant to a community development financial institution (CDFI) that has specialized services and lending products for applicants not currently able to qualify for bank loans.

When a lender extends an offer of credit, the small business applicant should thoroughly understand the terms and conditions of the loan agreement, including the cost of the funds extended, the rights and responsibilities of the applicant, the events that trigger default of the agreement, and the rights and responsibilities of the lender in the event of default. Because different types of lenders may be governed by different regulatory requirements, it is important to understand what disclosures and protections have or have not been made in any extension of credit. Understanding how much a loan actually costs can be difficult for even sophisticated small business applicants. Small business applicants may consider obtaining professional assistance in understanding and negotiating credit agreements.

Banking Products

Entrepreneurs and small business owners typically seek access to capital and credit from their bank. Many business owners think that their options are limited if they are denied a loan, but various options are available for business owners seeking financing to help them start, grow, or expand their enterprise. Each type of business loan, however, has different qualification requirements, rates, and terms, and different loan types are designed for different business needs.

One of the biggest factors affecting a small business owner's loan search is the length of time the business has been in operation. When a business has operated for many years, lenders feel more confident about the ability of that business to survive market challenges. Banks also use credit enhancements, such as U.S. Small Business Administration (SBA) or U.S. Department of Agriculture (USDA) guarantees, when making loans.

The length of time that businesses have been in operation can demonstrate that their owners have built credit, revenue, and profits, all of which are major factors in underwriting a loan application. The following sections list types of business loans for start-up businesses, scale-up businesses, and microbusinesses.

Loans for start-up businesses are great opportunities for small businesses still working to build credit, revenue, and profits. Many of these types of loans usually rely on the entrepreneur's or business owner's personal credit. The stronger the credit, the better the chances of securing a loan. Newer businesses should consider what they can use as collateral for the loan. The following are examples of loans commonly used in start-up businesses.

Term Loans

A term loan allows business borrowers to access a specified amount of cash up front, and then to repay that loan in regular amounts over time. Term loans may have fixed or floating interest rates. Obtaining a term loan can be a time-consuming process for small business owners, as the bank must perform rigorous underwriting of the loan application. With a traditional bank term loan, small business owners can borrow a set amount of money and make a payment, with

interest, every month for a certain number of years. Bank term loans usually provide larger loan amounts and longer terms than lines of credit and personal loans.

Lines of Credit

A business line of credit is a form of credit in which the bank sets a limit on the amount a small business owner may borrow, making draws as needed rather than through a lump-sum disbursement at account opening. The terms are revolving and subject to credit review and annual renewal. Small businesses can benefit from lines of credit for paying recurring business operating costs, supporting cyclical or seasonal cash flows, and for unexpected situations or emergencies. Banks offer both secured and unsecured credit lines; small business owners provide some business and personal assets as collateral for a secured line of credit.

Equipment Financing Loans and Leases

Equipment financing through loans and leases is a common solution for small businesses to purchase or lease physical business-related assets and equipment. Instead of using business or personal funds, a small business owner could apply for an equipment loan or lease. Equipment financing is an available option for established and start-up businesses because the equipment itself serves as collateral and secures the loan.

Personal Loans

Personal loans are another option available to entrepreneurs who are planning to launch a microenterprise or new business. Banks and non-bank lenders offer personal loans based on the creditworthiness and personal finances of the entrepreneur. Although an entrepreneur may obtain a personal loan, the loan can be used for business purposes. Whereas personal loans may be for a smaller amount of capital, they offer a source of funding that can be combined with other capital to launch a business venture or enterprise.

Business Credit Cards

Business credit cards are another option offered by banks for small business owners who need a fast, convenient way to make purchases while operating a business. These cards offer an alternative way to borrow money needed promptly to pay for expenses.

Alternative Sources of Financing

In many cases, banks can experience the same cost to underwrite small loans as they do for larger loans, which means small loans to businesses can be less profitable than larger ones. Making small business loans requires significant fixed costs associated with underwriting, servicing, and repayment. As such, many large banks may focus on providing larger loans to large commercial clients and may not view small businesses as a core customer base, though this is not necessarily the case for smaller community banks. Fintechs and other nonbank lenders

have responded to fill the market gap.²⁹ Additionally, new and emerging technologies have contributed to nonbank alternative lenders³⁰ capturing an increasingly large share of the small business lending market. As the competition from alternative lenders is increasing, more banks are considering utilizing new technologies in their own lending operations.

Financial Technology (Fintech) and Other Nonbank Lenders

Many small business owners seeking a business loan are turning to alternative funding sources in addition to traditional banks. Fintechs and other nonbank institutions have increasingly engaged in commercial lending activities. Fintechs often provide an accelerated process for small business owners to apply for loans compared with other lenders. Fintech lenders leverage technology, including machine learning and other tools, to underwrite loans, arrive at credit decisions, onboard new customers, and monitor lending relationships. It has been estimated that, with improvements in technology, alternative small business lenders will have originated \$52 billion and gain a 20.7 percent share of the total market in 2020,³¹ driven by the continued growth of new players, increased applicant awareness and interest, and major partnerships with large banks.

The 2019 Small Business Credit Survey found the percentage of small business owners satisfied with online lenders increased by 11 percent between 2016 and 2018, largely because these lenders often make loans that banks would not. That satisfaction rate is, however, lower than the rate for banks (both small and large).³² Small business loan applicants reported being attracted to online lenders because of the speed of credit decisions, improved chances of receiving funding, and lack of collateral requirements. However, the applicants cited challenges in dealing with online lenders, including high interest rates and unfavorable repayment terms compared with other lending sources.

The innovation of online lending products serves to complement, rather than replace, traditional funding sources. Online lenders have the potential to fund small and short-term loans to business owners more quickly than traditional lenders, providing an important financing option for small businesses. The economic impact of this lending activity is substantial. Access to capital allows small businesses to purchase inventory, cover operational costs, and provide capital to expand. In turn, these businesses stimulate additional economic activity and create jobs in their communities.

With the many benefits of online lending, there are challenges as well. In May 2016, the U.S. Department of the Treasury issued a report regarding its review of the online lending industry. The Treasury Department found that the use of data and modeling techniques for underwriting is

²⁹ PYMTS, [“Taking on SMB Banking Friction Without Reinventing the Wheel,”](#) August 7, 2019.

³⁰ For the purposes of this road map, alternative lending is defined as lending to consumers or businesses provided by any nonbank.

³¹ Business Insider Intelligence, [“One Area of Alt Lending is Recovering,”](#) February 23, 2017.

³² [Federal Reserve Small Business Credit Survey Report on Employer Firms 2019](#)

an innovation and a risk. Although data-driven algorithms may expedite credit assessments and reduce costs, they also carry the risk of disparate impact in credit outcomes and the potential for fair lending violations. The report found that the new credit models remain untested through an economic cycle, and the secondary market for online loans is undeveloped. Additionally, small business applicants will likely require enhanced safeguards because consumer protection laws and regulations do not apply to small business loans the way they do to personal loans.³³

Marketplace Lending

Marketplace lending³⁴ is supported by technology and is transacted using online lending platforms. Marketplace lenders have key similarities.³⁵ First, companies operating in this space often provide applicants with faster access to credit than the traditional face-to-face credit application process, sometimes providing funding decisions within 48 to 72 hours. Second, most marketplace lenders can offer small loans with short-term maturities, often with daily remittances of funds processed directly from linked bank accounts. Third, they use automated online loan applications and have no retail branches.³⁶

Products offered to small businesses by most marketplace lenders include term loans, lines of credit, and equipment financing loans. These lenders provide commercial loans generally for the stated purposes of buying inventory or acquiring new business equipment or working capital. The 2019 Small Business Credit Survey³⁷ showed that in 2018, 32 percent of small business owners applied for loans or lines of credit through marketplace lenders, and 82 percent of those applicants were approved for a loan, line of credit, or cash advance. Small businesses are increasingly considering marketplace lenders for capital needs; small business applications to online lenders increased 13 percent between 2016 and 2018.³⁸

Equity Capital

Equity capital is financing that investors provide to businesses, usually with the belief that the business has long-term growth potential. Though equity capital always has a monetary value, equity contributions may not always be made in cash. For example, providing technical support

³³ Ibid.

³⁴ The OCC defines marketplace lending as the segment of the financial services industry that predominantly uses investment capital, nontraditional underwriting, and online platforms to lend to consumers and small businesses. By using advances in technology and the increased availability of data, marketplace lending has the potential to deliver loan approvals and funds to borrowers faster and more efficiently.

³⁵ Treasury Department, [Opportunities and Challenges in Online Marketplace Lending](#), p. 5, May 2016.

³⁶ Ibid.

³⁷ [Federal Reserve Small Business Credit Survey Report on Employer Firms 2019](#).

³⁸ Ibid.

or managerial expertise would be referred to as “in kind” contributions in exchange for an equity stake.

Although this investment can be risky for those who put up funds, the potential for above-average returns is an attractive payoff. For new ventures that have a limited operating history (under two years), equity capital funding is a popular source for raising capital, especially if they lack access to bank loans or other debt instruments.

Small Business Investment Companies

One form of equity investment comes from small business investment companies (SBIC). Congress established the SBIC program in 1958 to create another pathway for small businesses to access long-term capital. After an SBIC is licensed and approved, the SBA commits to providing it with a set amount of leverage over several years. SBICs can borrow from the federal government to augment private investors’ funds. SBICs usually focus on investments between \$100,000 to \$250,000.

Crowdfunding

In 2012, the Jumpstart Our Business Startups (JOBS) Act allowed crowdfunding to be used to offer and sell securities to the public.³⁹ Donation-based crowdfunding is a way to source money for a project by asking many contributors to make individual small donations. If an entrepreneur or inventor has an idea for a new product or service, crowdfunding offers an alternative way to raise money, as opposed to traditional methods of bank or private loans or by offering equity shares. Through donation-based crowdfunding, entrepreneurs can presell their product to backers who each donate a relatively small sum toward the project. To encourage higher donation amounts, the entrepreneur may also offer token rewards of increasing value or significance, while retaining full ownership of the project or company being funded.

Crowdfunding is not necessarily a sustainable source of funding, however. Fewer than one-third of crowdfunding campaigns meet their fundraising goals.⁴⁰ Additionally, online fundraising platforms often charge fees for the use of their platform, so the business owner often does not receive 100 percent of the funds raised.

Angel Investors

An angel investor (also known as a business angel, informal investor, angel funder, private investor, or seed investor) is an individual who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity. A small but increasing number of angel investors invest online through equity crowdfunding or organize themselves into angel groups or angel networks to share research and pool their investment capital, as well as to provide advice to their portfolio companies.

³⁹ To read more about crowd funding, see the Securities and Exchange Commission’s “[Spotlight on Crowdfunding](#)”.

⁴⁰ Reynolds, Justin, “[5 Pros and Cons of Crowdfunding Your Businesses](#),” Fundbox Blog, July 2018.

Angel investors often invest their own funds, unlike venture capitalists, who manage the pooled money of others in a professionally managed fund. Angel capital fills the gap in seed funding between “friends and family” and more robust start-up financing through formal venture capital. Although it is usually difficult to raise more than a few hundred thousand dollars from friends and family, most traditional venture capital funds are barred from making or evaluating small investments under \$2 million. Thus, angel investment is a common second round of financing for high-growth start-ups.

Community Development Financial Institution (CDFI) Business Loans

Community Development Financial Institutions (CDFI) are specialized financial institutions that work to meet the credit needs of economically distressed people and places. CDFIs include regulated institutions, such as banks and credit unions, and unregulated institutions, such as nonprofit loan funds and venture capital funds.

CDFIs offer financial products and services such as mortgage financing for low-income, first-time homeowners and nonprofit developers; flexible underwriting and risk capital for community facilities; technical assistance; commercial loans; and investments to small, start-up, and expanding businesses in low-income areas. There are over 200 CDFI locations nationwide.

CDFI loans are a good resource for women and minority small business owners to access capital and credit. CDFI lenders provide capital to early-stage businesses in support of underserved entrepreneur communities while aiding the local economy and community in which the business is located. Small business owners seeking a CDFI business loan need to have good personal credit and a strong business plan to qualify. To locate a CDFI near you, visit the [CDFI Fund’s locator page](#).

State and Local Equity Funds

Over the past several decades, U.S. city, county, and state governments have increasingly adopted a wide set of policy tools to spur community wealth building. Most commonly, local and state governments invest directly in local businesses through economic development programs, which make loans to or investments in local enterprises, and through the active targeting of pension fund monies to support businesses within their regions. State and local investments play an important role in building community wealth for several reasons:

- They provide needed capital to local businesses, which helps create and preserve local jobs and ensures healthier local economies.
- Local business success generates increased tax revenues for localities, which can be used to support community needs and amenities.
- Because local businesses are likely to rely on local suppliers and service providers, such investments also have a positive economic multiplier effect that helps ensure local dollars remain in and recirculate within the community.

- Investing a portion of pension fund investments in area businesses helps local enterprises succeed, in turn generating greater tax revenues that can be used to enhance infrastructure and services.

Government Resources for Small Business Financing

Small Business Administration Programs

The SBA supports U.S. small businesses by providing a loan guarantee program, federal contract assistance, business development, and counseling services to help small businesses start, grow, and succeed. The SBA's specialized support programs include the Office of International Trade, Women's Business Outreach Center, the 8(a) Business Development Program, and Veterans Business Outreach Center. The SBA also provides direct disaster assistance loans to victims of natural disasters.

Contact your local [SBA district office](#) for more information about SBA programs and services that could assist your business.

Access to Capital

The SBA does not lend money to small business owners. The SBA provides a loan guarantee (loan insurance) to a bank or other lending institution, encouraging it to make small business loans. If the bank looks favorably on a business loan application and wants to make the loan but cannot make it for reasons other than poor credit history, the bank may request an SBA guarantee. The SBA does not guarantee a loan to the applicant. The term "SBA loan guarantee" means that the SBA will pay an agreed-upon percentage of the outstanding loan to the bank if the applicant defaults on the loan.

Applicants should approach a bank, not the SBA, with a well-written business plan, financial projections by month for the next 12 months, personal financial statements, a résumé, a lease agreement, and any supporting documentation their bank requires. Bankers typically do not fund 100 percent of any small business's financial needs.

7(a) Loan Program

The 7(a) Loan Program is the SBA's primary business loan program. The program provides up to an 85 percent guarantee to a bank for loans up to \$150,000 and 75 percent for loans over \$150,000. It can be used to gain working capital, refinance debt, or to buy a business, real estate, or equipment. The maximum dollar amount of a single or combined 7(a) loan is \$5 million. There is no minimum SBA loan amount.

SBA CAPLines Program

The CAPLines program has four SBA line-of-credit products that are designed to provide up to \$5 million to help small businesses meet their short-term and cyclical working capital needs.

- The Contract Loan Program finances the costs associated with contracts, subcontracts, or purchase orders. Proceeds can be disbursed before work begins.
- The Seasonal Line of Credit Program supports buildup of inventory, accounts receivable, or labor and materials above normal usage for seasonal inventory.
- The Builders Line Program provides financing for small contractors or developers to construct or rehabilitate residential or commercial property. Loan maturity is generally three years but can be extended up to five years, if necessary, to facilitate the sale of the property.
- The Working Capital Line Program is a revolving line of credit (up to \$5 million) that provides short-term working capital. These lines of credit are generally used by businesses whose principal asset is inventory.

SBA Export Loans

SBA Export Loans are designed to help U.S. small businesses expand their export activities, engage in international transactions, and enter new foreign markets. They are best for businesses engaging in international business and those that want to grow their business in those areas. These loans have no dollar amount limit, and the rates typically fall in the 6 percent to 12 percent range.

SBA Microloan Program

Microloans are similar to nonprofit CDFI business loans; they are small amounts of capital used by owners of start-ups and microbusinesses. The SBA Microloan Program is a good resource for businesses looking for loans up to \$50,000. The SBA partners with community-based nonprofit CDFI lenders to make these loans. The maximum term on an SBA microloan is six years, and the average microloan is about \$13,000.⁴¹ The SBA does not guarantee any portion of the loans made under the SBA Microloan Program. For more information on SBA microloans, visit the Microloan Program site [here](#).

SBA Disaster Loans

Disaster loans are the only loan product through which the SBA actually lends money. The direct loan process begins when a state's governor declares a state of emergency due to hurricanes, floods, earthquakes, wildfires, or other disasters, and when the physical damage and emergency response needs exceed the capacity of the state to adequately respond. The governor then sends a request to the President of the United States and asks the President to declare a federal disaster. A federal disaster declaration makes available SBA low-interest direct funding for federal recovery assistance to reach the state's disaster area and affected counties. SBA disaster loans are the primary form of federal assistance for the owners of private property.

The focus of the SBA disaster loan program is to provide financial assistance to help residents recover from disaster losses. SBA disaster loans are designed to cover only uninsured physical damages. Borrowers can use the funds received from the SBA loan to replace or repair their homes, fixtures, personal property, business property, machinery, and inventory. Disaster loans

⁴¹ Small Business Administration [website](#).

can be made to all businesses, nonprofit organizations, homeowners, and renters. All individuals applying for SBA disaster assistance are also encouraged to register with the Federal Emergency Management Agency before applying for SBA assistance by calling 1-800-659-2955 or emailing disastercustomerservice@sba.gov.

Certified Development Company 504 Loan Program

The SBA 504 Loan Program combines two loans—one from a lender and one from a certified development company (CDC)—which can be used to buy or finance improvements in owner-occupied commercial real estate, land, and other assets, like long-term capital equipment. The bank lends 50 percent and the CDC lends up to 40 percent. The remaining 10 percent of the project’s costs come from the applicant, typically in the form of a cash down payment. CDC/SBA 504 loans require that the business occupy at least 51 percent of the commercial real estate.

USDA Rural Development Business and Industry Loan Guarantee Program

The U.S. Department of Agriculture’s (USDA) Rural Development Business and Industry Loan Guarantee Program operates more than 50 financial assistance programs that address a variety of rural economic needs. The program can be used by federal or state-chartered banks, savings and loans, farm credit banks, and credit unions. The program focuses on improving the economic health of rural communities by increasing access to business capital through loan guarantees that encourage lenders to provide financing for businesses in eligible rural areas. This program provides guarantees up to 80 percent of loans of \$5 million or less, 70 percent on loans between \$5 million and \$10 million, and 60 percent on loans exceeding \$10 million, up to \$25 million.

Loan proceeds may be used for business conversion, enlargement, repair, modernization, or development; the purchase and development of land, easements, rights-of-way, buildings, or facilities; the purchase of equipment, leasehold improvements, machinery, supplies, and inventory; debt refinancing when refinancing improves cash flow; and business and industrial acquisitions when the loan will create or save jobs. The programs assist rural businesses, housing, and utilities. Review descriptions of all the loan guarantee programs under the [Business and Industry Loan Guarantee Program on the USDA site](#).

Minority Business Development Agency

The [Minority Business Development Agency](#) (MBDA) promotes the growth of minority-owned business through the mobilization and advancement of public and private sector programs, policy, and research.

- **Access to capital:** The MBDA recognizes that access to capital plays a major role in the success or failure of any business. The MBDA also recognizes that minority-owned businesses face the same struggles regarding gaining capital they faced in 1969 when the MBDA was established. To aid minority-owned businesses in accessing capital, the MBDA provides services such as commercial banking, bonding assistance, and financial analysis.

- **Access to contracts:** The MBDA provides procurement assistance to create opportunities for minority-owned businesses to conduct business with private corporations as well as federal, state, and local governments. The assistance includes proposal preparation, contractor registration, and solicitation analysis.
- **Access to global markets:** One major MBDA initiative is to provide minority-owned businesses with global opportunities to conduct business. The MBDA provides market research, competitor analysis, sales forecasting, and international business planning.
- **Export centers:** The MBDA has several [export centers](#) located across the United States. These export centers provide coaching and consulting services geared toward giving minority-owned businesses the chance to maximize both international and domestic opportunities. Export centers assist with export development, technical assistance and training, and estimating or performing cost analysis.

MBDA Education, Research, and Information

- **Advanced Manufacturing Centers**
The MBDA has several Advanced Manufacturing Centers located across the United States. The Advanced Manufacturing Centers’ aim to increase the production of “Made in America” products to be sold internationally and domestically. Services provided at these centers include strategic business consulting, access to markets, and global business development.
- **Advocacy and Outreach**
The MBDA is committed to the growth and success of minority-owned businesses. The MBDA hosts several events, including conferences and workshops, throughout the country to aid minority-owned businesses. The MBDA focuses on creating wealth within minority communities by creating opportunities for minority-owned businesses to stay competitive in the ever-changing global and domestic economy. With business centers located nationwide in areas with high concentrations of minorities, the MBDA provides services that help increase the wealth in those communities.
- **Technology Transfer and Innovation**
The MBDA has created the Inclusive Innovation Initiative to increase the participation of minority-serving institutions and minority business enterprises (MBE). As the leading federal technology transfer clearinghouse for people of color, the MBDA focuses on expanding opportunities for MBEs engaging in developing innovative solutions for today’s top industries.

Other Resources for Small Business Owners

Factoring and Merchant Cash Advance

Factoring and merchant cash advance can be alternatives to small business loans. Factoring is a type of financing in which a business sells its accounts receivable invoices to a third party at a discount. The basic process is simple: a business sells its outstanding invoices to a factoring company that will pay a lump sum, usually between 70 percent and 90 percent of the invoice total. The company can use the money immediately for working capital. In merchant cash

advance, funds are advanced on future sales. Payments can be based on a percentage of future receipts or by remitting fixed payments. The payments are typically made on a daily or weekly basis, along with applicable fees, that continue until the advance is paid in full. Business owners are encouraged to consider the pros and cons of invoice factoring and merchant cash advance to understand if these kinds of transactions are right for their business.

Small Business Borrowers' Bill of Rights

Innovation is creating faster and easier ways to borrow and expanding access to credit in communities that have historically been underserved. However, with an increasing array of financial service providers and products, irresponsible practices may grow as well. And, as discussed in the May 2016 Treasury report on marketplace lending, small business applicants will likely benefit from enhanced disclosures and other safeguards.

To promote responsible practices and combat abusive practices in small business lending, a coalition of for-profit and nonprofit lenders, brokers, and small business advocates created the Small Business Borrowers' Bill of Rights,⁴² a cross-sector consensus on the rights that small business owners deserve and what lenders and brokers can do to uphold those rights. Since the creation of the Small Business Borrowers' Bill of Rights, nearly 60 small business lenders and brokers have committed to uphold these rights, and nearly 50 advocacy and support organizations have endorsed them.

The Small Business Borrowers' Bill of Rights includes the right to transparent pricing and terms, non-abusive practices, responsible underwriting, fair treatment, inclusive credit access, and fair collection practices. To learn more about the Bill of Rights, visit the Small Business Borrowers' Bill of Rights [website](#).

Impact and Closing

Small businesses are an important part of America's economy. Small businesses and minority-owned enterprises often have difficulty accessing the necessary capital to maintain and expand operations. Banks and other lenders can fill this gap for small businesses through innovative approaches and financial products that serve the needs of small business owners.

Small business lending provides banks and other lenders an opportunity to increase the supply of capital available to small businesses, in turn allowing them to grow and create new jobs where they are needed. Access to capital allows small businesses to purchase inventory, cover operational costs, or provide money for expansion. More importantly, small business lending presents a great opportunity for banks and other lenders to safely and soundly invest in the nation's economy.

Small businesses come in many sizes and their needs vary. They provide everyday goods and services for people who live in major metropolitan areas and small rural communities across the country. Every investment and loan made to a small business helps to stabilize communities

⁴² The Small Business Borrowers' Bill of Rights is an industry practice, not a regulatory requirement or rule.

through creating job opportunities and developing new products and services to keep the nation's economy growing.