CLIP, JOURNALISM

Inside the efforts to improve SBA lending to Colorado women and minorities

By Monica Vendituoli, Reporter, Denver Business Journal
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I analyzed hundreds of Small Business Administration loan records obtained through a public records request and found lending disparities across Colorado.

MONICA VENDITUOLI, DENVER BUSINESS JOURNAL

Both Skye Barker Maa and Erasmo Casiano hope to evoke the feeling of home in their businesses at Aurora's Stanley Marketplace.

Maa started Neighborhood Music Stapleton in her home's basement after she couldn't find a piano teacher for her then 3-year-old son.

And Casiano and his co-founder's goal at Create Cooking School is to bring people together through the culinary arts. Create's classes are capped at 12 people in order to offer a personalized experience, Casiano said.

"We think of it as a big dinner party where we are welcoming you to our home," Casiano said. Their businesses now both thrive at bringing people together in the greater Denver metro.

But both Casiano, a Latino, and Maa, a woman, struggled to find the loans needed to move their businesses into the Stanley Marketplace due in part to their status as minority entrepreneurs.

They are not alone.

Denver Business Journal analyzed race, ethnicity and gender data obtained via a public records request of Colorado loan recipients of the U.S. Small Business Administration's 7(a) loan program, the SBA's most well-known program, from fiscal year 2008 to 2018. The analysis revealed that minorities and

women who lead businesses in Colorado receive fewer loans than men and non-minorities, and this has not changed much in 10 years.

Academic experts, community leaders and entrepreneurs cite unconscious bias, historical discrimination and a lack of knowledge about the SBA as reasons for the lower loan rates. But they also cited a number of reasons to hope that this could change, due to work by the SBA and other organizations in the region to address the issue.

"We recognize that we have a lot of work to do in that area, which is why we really are focusing our outreach efforts on that," said Frances Padilla, SBA's Colorado district director.

Lending vs. demographics

The SBA partners with lenders such as banks and credit unions to guarantee portions of loans ranging from $500 to $5.5 million, and its most popular program, the 7(a) loan program, offers short- and long-term capital as well as the ability to refinance existing debt.

SBA 7(a) loans issued in Colorado have declined from 1,866 loans issued in fiscal year 2008 to 1,437 loans issued in fiscal year 2018, a decrease of 22 percent. Padilla said this is likely the result of a strong economy, as businesses often turn to the SBA after not being able to find other funding sources. The percentage of total loans going to female-majority-led businesses and minority-led businesses has not changed much in 10 years.

The entire state of Colorado has about 224,200 women-owned businesses, defined as being at least 51 percent owned, operated and controlled by one or more females, according to an analysis of census data from American Express in 2018. In that year, there were 611,495 small businesses in the state which made up 99.5 percent of all businesses in Colorado, according to SBA data.

That is, woman-majority owned businesses made up 36.6 percent of all businesses in the state in 2018, but only received 18 percent of SBA 7(a) loans during that fiscal year.

At the same time, Colorado had more than 85,000 minority-owned businesses, making up 14 percent of the total small businesses in the state, according to SBA data for 2018. The number of loans that the SBA gave to Colorado minority residents that year was about 20.6 percent, which Padilla said shows promise.

But it’s worth noting that the number of loans given to minorities and women varied during this time. For instance, total loans given to Hispanic ranged from 47 to 160 and the number of loans given to women-majority owned businesses ranged from 150 to 400 over the 10 years of data the Denver Business Journal analyzed.

The full range of loans given out to women- and minority-owned businesses between fiscal years 2008 and 2018 are outlined in graphics below.

In that 10-year window, businesses owned by American Indian, Hispanic, Asian or Pacific Islander entrepreneurs and women-majority owned businesses received the most loans in fiscal year 2016, according to the data.

During part of that time, Betsy Markey, who is now the executive director of the Colorado Office of Economic Development and International Trade, led Colorado’s SBA office.

“Under the previous [national] SBA administrator, Maria Contreras Sweet, there was an emphasis nationwide to increase the diversity of our loan recipients,” Markey said in an email. “I think these numbers reflect that priority.”

One challenge Padilla cited for the SBA is the fact that their data has not been broken down into specific races and ethnicities to see how each is doing. The last study of this data was completed in 2012 by the Colorado Minority Business Office.

“It’s also a challenge in that we really don’t have a lot of very recent studies,” Padilla said.

For instance, the proportion of loans that black Coloradans received declined from 8.7 percent of all loans in fiscal year 2008 to only 3.2 percent of all loans in fiscal year 2018. Subtle barriers may also exist in the corporate world for this group.

“There are a lot of women who are going into entrepreneurship because they are running into challenges in the traditional workplace, particularly black women,” said Maria Quijada, an associate professor of management at Regis University’s Anderson College of Business and Economics.

That was the case for Dianne Myles, the owner of Dope Mom Life, a creative content firm. She had heard of the SBA, but didn’t know how to access its loans. Myles ended up getting a micro-loan through another program.

She said she has been discouraged by the lack of knowledge regarding minority communities in Denver. “Oftentimes, I run into people who don’t know black people even live in Denver,” Myles said. “People say Colorado is the mecca for young white people to be successful, which is disheartening.”

The lack of growth in the proportion of loans received by Hispanic Coloradans is also worth noting, especially given the growth of Colorado’s Hispanic-owned firms.

In comparison to fiscal year 2008, the share of loans given to Hispanic populations increased by 1.5 percent in fiscal year 2018. According to the most recent study by the Colorado Minority Business Office on minority ownership, the amount of Hispanic-owned businesses in Colorado increased by 51.5 percent between 2007 to 2012.

And that lack of diversity in loans could be problematic for the growth of Colorado’s overall economy.

“Our economies are richer and better off when we have a diverse representation of products and services,” said Vaneesha Boney Dutra, an associate professor of finance at University of Denver’s Daniels College of Business. “These diverse products and services can only come about from diverse business owners.”

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Historical framework

Stefanie Johnson, an associate professor of management at the University of Colorado Boulder’s Leeds School of Business, said unconscious bias can impact how bankers even approach women and minority business leaders.

“They will ask them different questions, questions that assume incompetence rather than competence,” Johnson said. “They get less of a chance to prove their competence.”

Maa, the owner of Neighborhood Stapleton Music, said she believes this might have been the case in her situation.

She called about 15 commercial lenders in the area and got turned down by each one before receiving funding through the Colorado Enterprise Fund.

“They don’t look you as a strong and successful businesswoman,” Maa said.

Dutra noted that historical discrimination has helped create some of these opportunities for unconscious bias today.

She said concerns about past discrimination have led minorities, in particular the black community, to seek funding through alternative means.

“In the black community, many entrepreneurs, instead of going to a bank, go to family and friends,” Dutra said in an email. “Its historical in nature, a fear that a bank may turn you down due to inherent bias.”

Kristen Blessman, president and CEO of Colorado Women’s Chamber of Commerce, added that the Women’s Business Ownership Act of 1988 ended state laws that required women to have male relatives sign business loans.

“That marks only 30 years of women having access to independent loans,” Blessman said in an email to DBJ. “We, as women, need to demand equality when it comes to business funding and not be afraid to ask for what is needed to grow our businesses.”

Elena Vasconez, the director of the Women’s Business Center at the nonprofit Mi Casa Resource Center, works with many Hispanic immigrants in her position. She said that due to instability in their home countries, they often are only comfortable doing business in cash.

“They don’t trust banks because in their countries the banks have taken all their money and disappeared,” she said. “And so for them, you know, to go to a bank and say, ‘OK, here’s my $50,000’ is a big issue.”

Language barriers with her clients can also be a complicating factor in securing funding. If banks do not have translators, entrepreneurs for whom English is a second language may be discouraged from trying to get a loan.

Veronica Barela, the co-chair of the Colorado Latino Forum, a nonprofit that aims to increase the political, social, educational and economic strength of Latinos in Colorado, said that there is also a lack of awareness in the Latino community about what kinds of programs are offered by the SBA.

“You can’t just sit around and think they will come around to you,” Barela said. “You need to reach out to them.”

Efforts to improve diversity

Christopher Chavez, a spokesman for the SBA, said it is trying to raise awareness about the SBA’s programs among diverse populations in Colorado.

“We are out every day working with different community organizations trying to build that demand,” Chavez said.

As part of its national, two-year strategic vision, the SBA is aiming to increase the amount of loans it gives out in rural areas and HubZone program areas.

Initially created for federal contracting, HubZones are historically underutilized business zones.

“In Colorado, we actually kind of have a perfect storm,” Padilla said. “There are a whole lot of rural designated counties that are also HubZones, so that means we do have a lot of historically underutilized business zones where there’s minority business ownership and it’s a rural area.”

One way the SBA in Colorado has increased lending among women and minorities is through its microloan program. The program offers loans generally under $50,000 made by third-party intermediaries.

“This program can be seen as an entry point for small firms needing a smaller loan that would not work under the normal 7(a) program,” Chavez said.

In fiscal year 2018, 28 percent of the 178 microloans in Colorado went to 100 percent women-owned businesses, 24 percent to black-owned businesses and nearly 12 percent to Hispanic-owned businesses, according to data provided by the SBA.

The SBA also works with the Colorado Small Business Development Network, a $3.5 million state- and federally funded program with 14 centers across the state and CDFIs, or community development financial institutions. CDFIs are certified by the U.S. Treasury and provide financial services to underserved markets and populations.

Maa and Casiano both received funding for their businesses through the Colorado Enterprise Fund, which receives some CDFI funding along with other sources.

For instance, in February, Wells Fargo awarded the Colorado Enterprise Fund $1.35 million to spark diverse small-business growth throughout the state through the Wells Fargo’s Diverse Community Capital program.

“Almost all of the major national banks and many local banks have provided capital for us,” said Ceyl Prinster, CEO of the Colorado Enterprise Fund, in an email.

The Colorado Enterprise Fund also offers training for entrepreneurs, through its Business Acceleration Services program.

“It’s everything from accounting to market strategy,” Prinster said.

Rob Smith, executive director of another Denver-based CDFI, Rocky Mountain MicroFinance Institute, said in an email that his program also focuses on mentoring underserved populations.

“We understand that lending and capital access is critical for clearing a pathway to entrepreneurship for more disadvantaged populations, but also recognize the destructive force of capital if those receiving it are not equipped with the tools and mindset to deploy it effectively in their business,” Smith said. “RMMFI program is essentially an incubator with a capital access arm. We are a CDFI, but we try and keep all of our loan funds private, so we can be in charge of our lending decisions.”

Quijada, assistant professor at Regis University, said that changing how lending decisions are made can also help increase the diversity of SBA loan recipients. She hopes that more banks and the SBA use blind reviews to make loan decisions. Blind reviews take away the name and other identifiers associated with a possible loan.

“Once you take those away, it can help people be more objective about what they are being presented with,” Quijada said.

Creating a criteria for what banks are looking for before they start reviewing loans can also help, Quijada said. That way, more entrepreneurs from underserved backgrounds can experience the joys that Maa and Casiano have experienced through starting their own businesses.

“We started drawing out the space out on a napkin and seeing it come to life was a heartwarming and proud moment for us,” Casiano said.
