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Beyond Access to Capital

Supporting Small Business Owners' Economic Stability

June 16, 2017

Moderator: Ted Archer, VP & Small Business Program Officer, JPMorgan Chase Foundation

Lead Sponsor

JPMORGAN CHASE & CO.

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Agenda

- Overview of research findings
- Panel discussion on implications for practice
- Audience interaction

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Chris Wheat, Director of Business Research

JPMORGAN CHASE INSTITUTE

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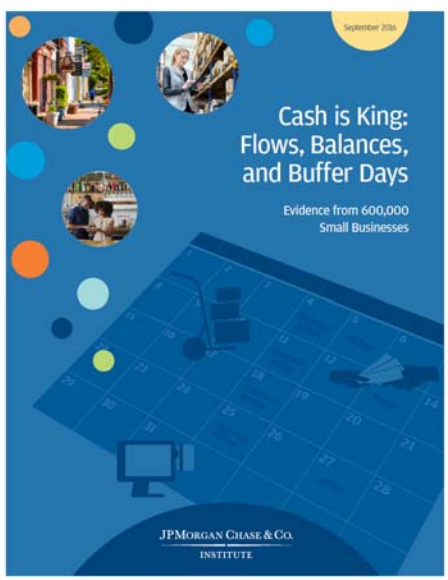
3



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4

We created a sample of **45,260 small businesses** who hold Chase Business Banking deposit accounts and meet our criteria for small, core metropolitan employer businesses. We then used their combined **65 million transactions** to produce a view of daily cash inflows, payroll and other cash outflows, and end-of-day balances over the nine non-holiday months **from February 2015 to October 2015**.

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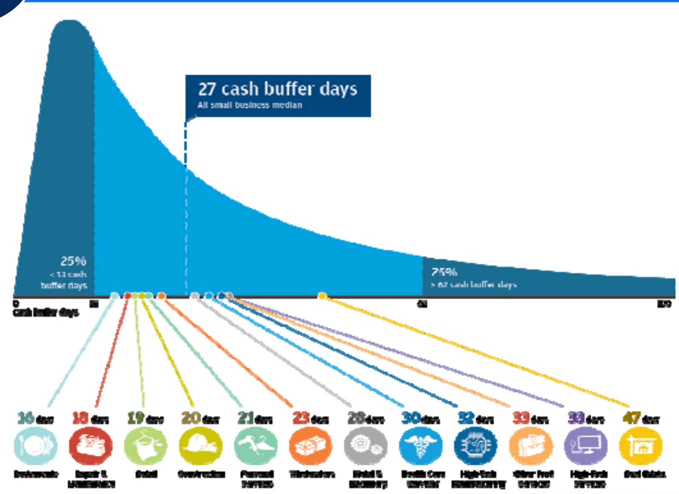
Key Insight The median small business holds 27 cash buffer days in reserve



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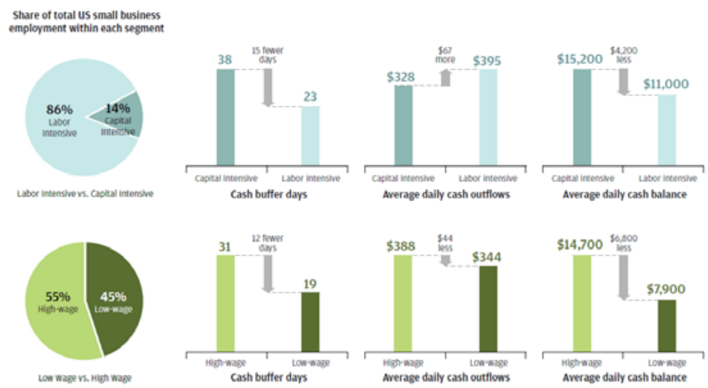
Key Insight

Small businesses in labor-intensive or low-wage industries hold fewer cash buffer days than those in capital-intensive or high-wage industries



Note: Cash buffer days are the number of days of cash outflows a business could pay out of its cash balance were its inflows to stop. We estimate cash buffer days for a business by computing the ratio of its average daily cash balance to its average daily cash outflows. Outflows refer to debit transactions paid out of any business deposit or savings accounts, such as the purchase of material and payroll, owner transfers out of the account to private savings, loan repayments, or tax payments. Balances refer to the amount of cash held by a business across all its business deposit or savings accounts. The "Mixed" category in the B2B vs B2C comparison refers to small businesses in industries for which neither businesses nor households used 65 percent of domestic output.

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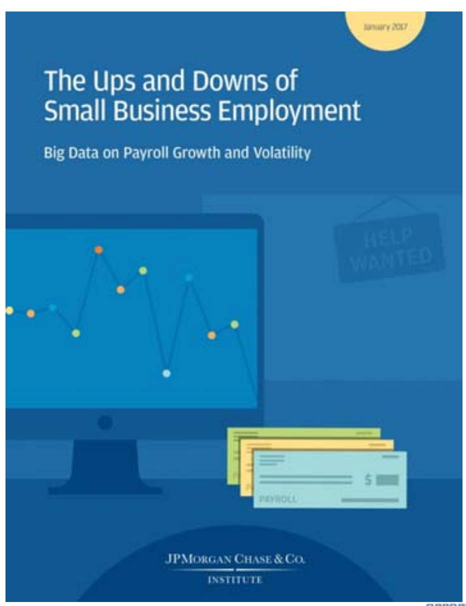

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Small businesses

- Hold Chase Business Banking accounts
- End-of-day combined balances do not exceed $20 million each day
- Do not identify with more than a single address and/or a single industry

Core metropolitan employer businesses

We define core businesses as those businesses that have financial activity that indicates they are not seasonal businesses, hobby businesses, small office/home office businesses (SOHOs), micro businesses, etc.

- For at least five of nine months, at least $500 in outflows and 10 transactions
- At least one inflow and outflow in each month
- At least one and fewer than 500 employees in each payroll period
- Are located in Metropolitan Areas where Chase has a representative footprint

Selected key industries

The businesses we study are part of 12 selected key industries that comprise key elements of the small business sector:

- Construction
- Personal Services
- Health Care Services
- Real Estate
- High-Tech Manufacturing
- Repair & Maintenance
- High-Tech Services
- Restaurants
- Metal & Machinery
- Retail
- Other Professional Services
- Wholesalers

Together, these 12 industries capture 73 percent of for-profit employer small firms and 65 percent of for-profit small business employment.

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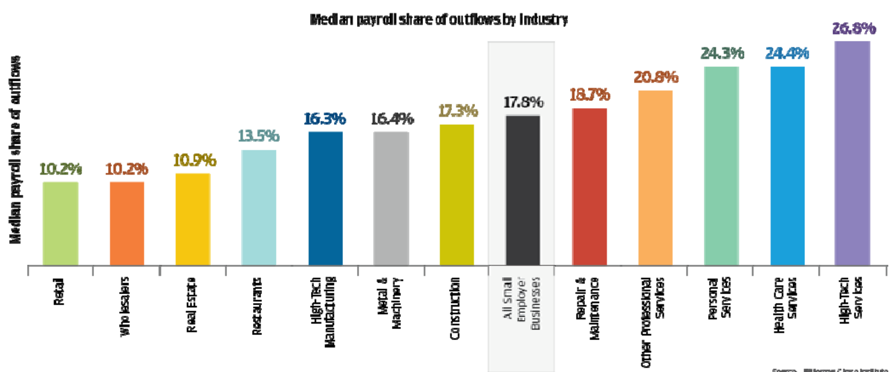
Key Insight

Payroll for most small employer businesses grew by less than the equivalent of one full-time employee in a calendar year

The median small employer business had **$18,700** in monthly payroll expenses, which is equal to **18% of all outflows** for the typical small business—ranging from **$11,700** for the median small **restaurant** to **$36,600** for the median small **high-tech services** firm



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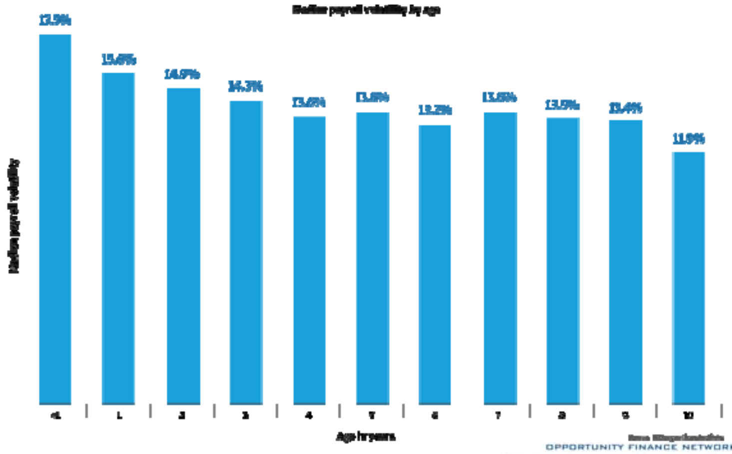
Key Insight

Payroll volatility was highest for younger, small employer businesses

Payroll volatility was substantially higher for firms **less than two years old**



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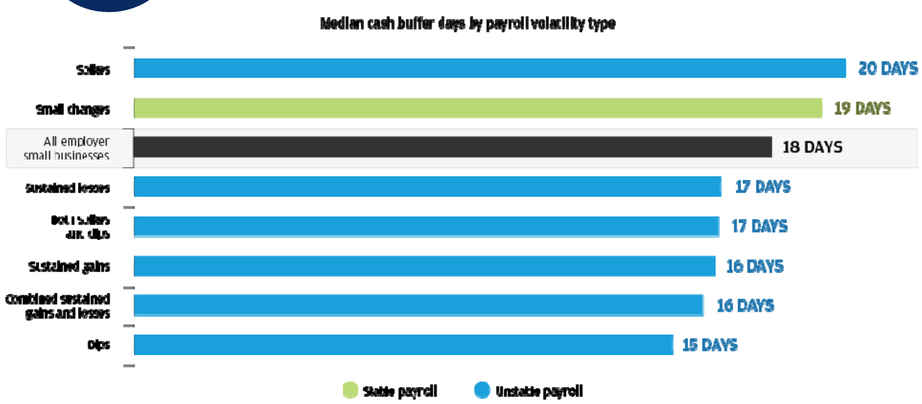
Key Insight

Small businesses with more volatile payroll patterns tended to have fewer cash buffer days



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Shaolee Sen, EVP

ACCION IN THE U.S.

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National Small Business Lending Impact Study

Based on the work of: ACCION, Opportunity Fund working capital for working people

Lead funding by: W.K. Kellogg Foundation, JPMorgan Chase & Co.

Additional Support from: S&P Global

Research by: harder + co community research

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Key Demographics of the Sample

Borrower ethnicities:*
+ 37% Latino/Hispanic
+ 33% White
+ 19% Black/African American
+ 5% Asian
+ 6% Multiracial/Other

* demographics vary by region

Gender:
+ 47% female
+ 53% male

Income level:
+ 73% Low/Moderate
+ 27% Middle/Upper

Loan size:
$200-$500,000
(most loans were <$10,000)

Top industries represented:
+ Retail
+ Janitorial
+ Professional Services
+ Transportation/Trucking
+ Food Businesses
+ Health & Social Services

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KEY PRELIMINARY FINDINGS

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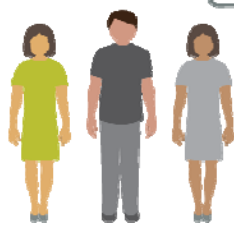
Small business owners have diverse visions for the future:



+ Entrepreneurs define success in a variety of ways, including both growth and stability

+ For many entrepreneurs, the desire for financial stability outweighs the desire for growth

Instilling Confidence

Percentage of entrepreneurs that predicted growth for their businesses and their households in the next six months.

"I think the most important thing is that it's given me the confidence to keep on and not quit and continue to grow."
- Albuquerque

Supporting Economic Stability

" I'm profitable. I'm not rich, but I'm profitable and [the loan] allowed me to do that. I couldn't have done that without a shot of capital."

—*Tucson*

We have better health care for the kids and for us, my wife and I. My kids, of course, get what they need, if not what they want. Just overall, it's better cars we're driving, I could go on and on. Everything's gotten better for us."

—*San Francisco Bay Area*

- **Business Stability**
  - 55% of participants increased profit
  - 65% increased sales
- **Personal Stability**
  - 30% increased personal savings
  - 40% increased take-home pay

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Key Challenges to Building Financial Capability

- Financial Management Practices
- Saving and Investing
- Preparing for Emergencies

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Saving and Investing

Average ratings show that saving and investing are very important to entrepreneurs, but finances continue to be a source of worry for many.
Scale was 1–5, with 5 representing "very true"

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Preparedness for a Financial Emergency

- Only a third of business owners had taken steps to prepare for financial emergencies (e.g. saving or creating a business plan)

"I would like to say [I feel prepared for an unexpected business expense], but the answer truthfully is no. It's a huge concern as a business owner, that something could just happen one day and it could really, really damage us as a young business."

- Los Angeles

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Eric Weaver, Founder & CEO

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Unaffordable and Unsustainable

The New Business Lending on Main Street

Opportunity Fund working capital for working people

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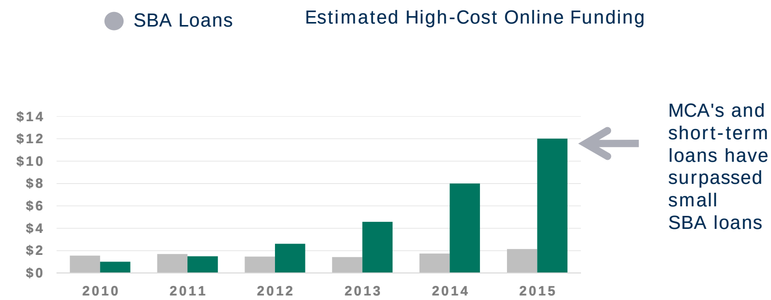
Business Financing of $150k or Less



- Sources: Online short-term estimates based on "The State of Small Business Lending" by former SBA Administrator Karen Mills, published Harvard Business School 2014.
- SBA data annualized: https://www.sba.gov/sites/default/files/aboutsbaarticle/WebsiteReport_asof_06_20_2015.pdf

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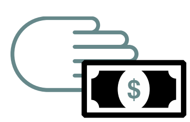
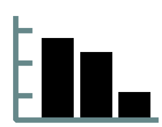
Research & Data

The dataset contains information on alternative loans for 104 California businesses.



These businesses received 150 alternative loans from 54 different lenders.



The applicants provide their alternative loan contracts when they apply for refinancing from Opportunity Fund.

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KEY FINDINGS

Exorbitant APRs

Alternative Loan Characteristics	Mean	Median
Loan Amount	$32,664	$24,427
Repayment Amount	$55,737	$37,098
# Months	23	11
Payment/Month	$4,219	$3,832
APR	**93.9%**	**72.0%**

94% APR

The average alternative loan we analyzed carried an annual percentage rate (APR) of 94%, with one loan reaching a shocking 358%.

Multiple Alternative Lenders

- More than a quarter of the businesses in our dataset had loans outstanding with multiple alternative lenders.

- The practice of providing a follow-on loan to a small business that already has a loan is called “stacking.” This can occur when a business is unable to meet payment obligations on the first loan.

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Payments Nearly Double Take-Home Pay

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IMPACTS ON CASH FLOW

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31

Overburdened with Debt

A wholesale clothing business owned by a middle income minority woman was earning a strong net profit of $7,000 each month.

Alternative Loan Debt
$70,000 from three alternative lenders. Payments on these loans exceeded $42,000 per month — six times her available monthly take home pay.

The Result
The owner applied for a refinance from Opportunity Fund but had too much debt. By January 2016 she had shut down her business under the burden of its debts.

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32

Regaining Financial Stability

Opportunity Fund Refinanced Loan Characteristics	Mean	Median
Loan Amount	$36,376	$31,062
Repayment Amount	$42,456	$36,432
# Months	32	36
Payment/Month	$1,358	$1,148
APR	**9.8%**	**9.5%**

Among the businesses that Opportunity Fund was able to refinance, monthly payments fell by more than 60% and APR dropped by an average of 85%.

Success Story: Jorge

When Jorge's bank of 25 years turned him down for a loan, he turned to two unregulated "alternative" lenders so that he could expand his popular Peruvian restaurant.

Alternative Loan Debt
With APRs of around 80%, Jorge found that he couldn't afford the payments, putting his restaurant at risk as he struggled to make payments.

The Result
Opportunity Fund helped Jorge escape the debt trap by refinancing his high-cost loans and providing additional, affordable funding to finish the remodel of his restaurant. With Opportunity Fund, Jorge is saving $6,000 every month over his alternative debt with a healthy business loan.

Thank You!

- Ted Archer, Vice President & Small Business Program Officer, JPMorgan Chase Foundation ted.archer@jpmorgan.com
- Chris Wheat, Director of Business Research, JPMorgan Chase Institute, chris.wheat@jpmchase.com
- Shaolee Sen, Executive Vice President, Accion in the U.S. ssen@accion.org
- Eric Weaver, Founder & CEO, Opportunity Fund eric@opportunityfund.org

- Sign up for updates on the impact study: us.accion.org/impactstudy

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