Beyond Access to Capital
Supporting Small Business Owners’ Economic Stability

June 16, 2017
Moderator: Ted Archer, VP & Small Business Program Officer, JPMorgan Chase Foundation

Agenda
- Overview of research findings
- Panel discussion on implications for practice
- Audience interaction
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.
Small businesses in labor-intensive or low-wage industries hold fewer cash buffer days than those in capital-intensive or high-wage industries.
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.

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.
Payroll volatility was highest for younger, small employer businesses. Payroll volatility was substantially higher for firms less than two years old.

Key Insight

Small businesses with more volatile payroll patterns tended to have fewer cash buffer days.
Shaolee Sen, EVP

ACCION IN THE U.S.

National Small Business Lending Impact Study

Based on the work of:

Lead funding by:

Additional Support from:

Research by:
Key Demographics of the Sample

- Borrower ethnicities:
  - 37% Latino/Hispanic
  - 33% White
  - 20% Black/African American
  - 5% Asian
  - 6% Multiracial/Other

- Gender:
  - 47% female
  - 53% male

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

- Loan size:
  - $200-$500,000 (most loans were <$100,000)

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

KEY PRELIMINARY FINDINGS
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.

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household Savings</td>
<td>68.7%</td>
</tr>
<tr>
<td>Take-Home Pay</td>
<td>70.9%</td>
</tr>
<tr>
<td>Business Profit</td>
<td>81.3%</td>
</tr>
<tr>
<td>Business Sales</td>
<td>83.0%</td>
</tr>
</tbody>
</table>

“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

Key Challenges to Building Financial Capability

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

<table>
<thead>
<tr>
<th>Statement</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saving and investing are important to me</td>
<td>4.4</td>
</tr>
<tr>
<td>I feel I have the ability to handle my financial future</td>
<td>4.1</td>
</tr>
<tr>
<td>I believe I have adequate information to make the best financial decision</td>
<td>3.9</td>
</tr>
<tr>
<td>for me and my family</td>
<td>3.7</td>
</tr>
<tr>
<td>I feel in control of my current financial situation</td>
<td>3.5</td>
</tr>
<tr>
<td>Repaying loans from other sources (not Accion or Opportunity Fund) is</td>
<td>3.1</td>
</tr>
<tr>
<td>not a source of stress for me</td>
<td>2.6</td>
</tr>
<tr>
<td>I have taken the steps to prepare for a financial emergency</td>
<td></td>
</tr>
<tr>
<td>My finances are not a significant source of worry for me</td>
<td></td>
</tr>
</tbody>
</table>

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
Eric Weaver, Founder & CEO
OPPORTUNITY FUND

Unaffordable and Unsustainable
The New Business Lending on Main Street
Business Financing of $150k or Less

- **SBA Loans**
- **Estimated High-Cost Online Funding**

![Graph showing SBA Loans and Estimated High-Cost Online Funding from 2010 to 2015.](image)

MCA’s and short-term loans have surpassed small SBA loans.


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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.
KEY FINDINGS

Exorbitant APRs

<table>
<thead>
<tr>
<th>Alternative Loan Characteristics</th>
<th>Mean</th>
<th>Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Amount</td>
<td>$32,664</td>
<td>$24,427</td>
</tr>
<tr>
<td>Repayment Amount</td>
<td>$55,737</td>
<td>$37,098</td>
</tr>
<tr>
<td># Months</td>
<td>23</td>
<td>11</td>
</tr>
<tr>
<td>Payment/Month</td>
<td>$4,219</td>
<td>$3,832</td>
</tr>
<tr>
<td>APR</td>
<td>93.9%</td>
<td>72.0%</td>
</tr>
</tbody>
</table>

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.

Payments Nearly Double Take-Home Pay

- Businesses owe nearly 2X take-home pay to their alternative lenders.
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.
Regaining Financial Stability

<table>
<thead>
<tr>
<th>Opportunity Fund Refinanced Loan Characteristics</th>
<th>Mean</th>
<th>Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Amount</td>
<td>$36,376</td>
<td>$31,062</td>
</tr>
<tr>
<td>Repayment Amount</td>
<td>$42,456</td>
<td>$36,432</td>
</tr>
<tr>
<td># Months</td>
<td>32</td>
<td>36</td>
</tr>
<tr>
<td>Payment/Month</td>
<td>$1,358</td>
<td>$1,148</td>
</tr>
<tr>
<td>APR</td>
<td>9.8%</td>
<td>9.5%</td>
</tr>
</tbody>
</table>

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!

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