Patterns of Disparity:
Small Business Lending in Illinois

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Pictured on the cover is Marcus Pickett, founder and president of Temperature Doctors Heating & Cooling, Inc., the photo was taken by Claire Strominger.

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EXECUTIVE SUMMARY

Small businesses play an important role in creating economic opportunities within communities. They provide local access to goods and services, generate sales tax revenue, and provide wealth-building opportunities through entrepreneurism. Access to adequate levels of capital is an important element of success for small businesses. Businesses that have access to adequate levels of capital grow more rapidly, hire more workers, and make more investments than businesses without access to capital. Unfortunately, many businesses struggle to access traditional bank loans and instead are forced to turn to more costly forms of credit, such as personal credit cards or high-interest online loans.

This report examines bank lending to businesses in the State of Illinois and nine of its regions: Bloomington, Carbondale, Champaign-Urbana/Danville, Chicago, Moline-Rock Island, Metro East, Peoria, Rockford, and Springfield/Decatur. It builds on a series of reports released in 2017 by Woodstock Institute that examined small business lending in eight regions throughout the country. The purpose of this report is threefold: (1) to determine the extent to which banks are meeting the credit needs of small businesses in the State of Illinois; (2) to explore lending trends in a collection of smaller, more rural regions (the 2017 series of reports focused primarily on larger, more urban regions); and (3) to examine whether the income and racial and ethnic disparities in access to capital observed in the eight regions studied in the initial series of reports are also evident in Illinois's smaller regions.

Findings

The data on small loans to businesses used to conduct this analysis come from reports that large financial institutions insured by the Federal Deposit Insurance Corporation (FDIC) must submit to the Federal Financial Institutions Examination Council (FFIEC) under the Community Reinvestment Act (CRA).

Long-Term Trends in CRA-Reported Business Lending (See Figure A)

- CRA-reported business lending grew rapidly from 2000 to 2007. Lending dropped significantly in the wake of the Great Recession, bottoming out in 2010. Since then, lending levels have slowly rebounded, but remain below pre-Recessionary levels.

- The rebound in CRA-reported lending from 2010 to 2017 was not as large in eight of the nine regions analyzed in this report as it was for the state or nation.

- Post-Recessionary recovery in CRA-reported lending has been uneven across Illinois. Only the Chicago region and the Metro East region reported lending levels in 2017 that were above 2000 levels.

Figure A: Change in Number of CRA-Reported Loans, Nine Regions, Illinois, and Nation

	2000-2007	2007-2010	2010-2017	2000-2017
Bloomington	115%	-62%	19%	-4%
Carbondale	91%	-70%	37%	-22%
Champaign-Urbana/Danville	99%	-69%	18%	-26%
Chicago	180%	-69%	55%	36%
Metro East	150%	-66%	26%	8%
Moline-Rock Island	69%	-66%	0%	-42%
Peoria	84%	-64%	37%	-9%
Rockford	93%	-74%	43%	-28%
Springfield/Decatur	89%	-68%	15%	-31%
Illinois	156%	-68%	45%	18%
United States	166%	-69%	47%	22%

CRA-Reported Lending by Census Tract Income Level (See Figure B)

● Nationally, for the period 2015 through 2017, 33.4 percent of business addresses were located in low- and moderate-income (LMI) census tracts, but they received only 22.4 percent of CRA-reported loans under $100,000 and 22.1 percent of the total dollar amount of those loans. If businesses in LMI tracts had received CRA-reported loans under $100,000 in proportion to their share of business addresses overall, they would have received 1.7 million more loans over the three-year period, totaling $25.3 billion.

● In Illinois, for the period 2015 to 2017, 27.0 percent of business addresses were located in LMI census tracts, but they received only 19.3 percent of all CRA-reported loans under $100,000 and 17.8 percent of the total dollar amount of those loans. If Illinois businesses in LMI tracts had received CRA-reported loans under $100,000 in proportion to their share of business addresses overall, they would have received 46,648 more loans over the three-year period, totaling $618 million.

● Businesses in LMI census tracts received a smaller share of CRA-reported lending than those in higher-income census tracts in all nine regions examined in this report.

Figure B: Change in Number of CRA-Reported Lending in LMI Census Tracts, Loans Under $100,000, 2015-2017

	Percent of Businesses in LMI Census Tracts	Percent of Loans Originated in LMI Tracts	Lending Disparity
Bloomington	21.3%	17.1%	-4.2%
Carbondale	49.6%	33.2%	-16.4%
Champaign-Urbana/Danville	37.6%	23.2%	-14.4%
Chicago	24.5%	19.7%	-4.8%
Metro East	31.0%	20.5%	-10.5%
Moline-Rock Island	46.5%	30.8%	-15.7%
Peoria	33.7%	18.2%	-15.6%
Rockford	35.8%	23.8%	-12.0%
Springfield/Decatur	47.7%	31.4%	-16.3%
Illinois	27.0%	19.3%	-7.7%
United States	33.4%	22.4%	-11.0%

CRA-Reported Lending by Census Tract Racial and Ethnic Composition (See Figure C)

- Nationally, for the period 2015 through 2017, 42.8 percent of business addresses were located in census tracts with non-white populations greater than 40 percent, but they received only 38.2 percent of CRA-reported loans under $100,000 and 36.8 percent of the total dollar amount of those loans. If businesses in census tracts with non-white populations greater than 40 percent had received CRA-reported loans under $100,000 in proportion to their share of business addresses overall, they would have received 721,348 more loans over the three-year period, totaling $13.6 billion.

- In Illinois, for the period 2015 to 2017, 36.4 percent of business addresses were located in census tracts with non-white populations greater than 40 percent, but they received only 33.3 percent of all CRA-reported loans under $100,000 and 30.7 percent of the total dollar amount of those loans. If Illinois businesses in census tracts with non-white populations greater than 40 percent had received CRA-reported loans under $100,000 in proportion to their share of business addresses overall, they would have received 19,020 more loans over the three-year period, totaling $460.3 million.

- Businesses in census tracts with non-white populations greater than 40 percent received a smaller share of CRA-reported lending than those in majority-white census tracts in all nine regions examined in this report.

Figure C: Change in Number of CRA-Reported Lending in Census Tracts with Non-White Populations Greater than 40 Percent, Loans Under $100,000, 2015-2017

	Percent of Businesses in Tracts with > 40% Non-White Population	Percent of Loans Originated in Tracts with > 40% Non-White Population	Lending Disparity
Bloomington	2.2%	1.3%	-0.8%
Carbondale	14.2%	8.8%	-5.4%
Champaign-Urbana/Danville	31.3%	19.4%	-11.9%
Chicago	48.7%	42.0%	-6.7%
Metro East	20.4%	12.0%	-8.5%
Moline-Rock Island	30.3%	15.8%	-14.5%
Peoria	20.2%	10.2%	-10.0%
Rockford	35.6%	22.1%	-13.4%
Springfield/Decatur	25.3%	11.6%	-13.8%
Illinois	36.4%	33.3%	-3.1%
United States	42.9%	38.2%	-4.7%

Recommendations for Policymakers

● **Investigate potential discrimination.** The Consumer Financial Protection Bureau (CFPB) and Department of Justice should investigate potential violations of the Equal Credit Opportunity Act, and, if violations are evident, take appropriate remedial action. The disparities revealed in this report and other research on business lending establish a clear and urgent need for further investigation to get at the root cause of these disparities.

● **Require all small business lenders (bank and non-bank) to report race and gender of loan applicants and other relevant data.** The CFPB should make rule-making for small business data collection a top priority. Section 1071 of the Dodd-Frank Act requires small business lenders to report data on gross revenue of the applicant, the loan amount requested, the type of loan requested (e.g., term loan, credit card, or merchant cash advance), the action taken on the application, the amount loaned, and the race and gender of the applicant. The CFPB should include small lenders in the rule-making (under the CRA, only institutions with assets over $1.226 billion are required to report). Section 1071 data should be made publicly available in the same way that CRA data is publicly available to allow a comprehensive analysis of how financial institutions are meeting the credit needs of businesses in LMI neighborhoods and communities of color.

● **Support and increase funding for government programs that support lending to underserved communities.** Community Development Financial Institutions (CDFIs) and the New Markets Tax Credit (NMTC) program are important sources of business capital in lower-income neighborhoods and communities of color and should be expanded to increase the level of investment they bring to their service areas. The U.S. Department of the Treasury and the Internal Revenue Service should implement robust reporting requirements for investments in Opportunity Zones to ensure that capital is flowing to areas and projects with the greatest need.

Congress should pass the Unlocking Opportunities for Emerging Markets Act, which would establish the Office of Emerging Markets (OEM) within the Small Business Administration's (SBA) Office of Capital Access. The creation and empowerment of the OEM would allow the SBA to coordinate its efforts to develop policies and implement strategies that specifically address the capital needs and goals of entrepreneurs in underserved and emerging markets.

- **Support programs to expand access to small business loans for rural entrepreneurs.** Congress should continue to fund and support the SBA's Rural Microentrepreneur Assistance Program (RMAP) and Microenterprise Development Organizations (MDOs). RMAP provides loan capital and technical assistance funding to MDOs, which provide microloans and support to rural small businesses, including marketing, management, and operational technical assistance. Pending an evaluation of the results of the program, the SBA should make permanent the Rural Initiative Pilot Program, which expands the areas in which Certified Development Companies (CDCs) can operate to allow them to make certain loans in adjacent rural counties. Congress should pass the Closing the Credit Gap Act, which would provide small business owners, especially women and rural entrepreneurs with access to loans up to $350,000.

- **Strengthen the Community Reinvestment Act.** Any modernization of the CRA should work to strengthen the law, and any reforms should be undertaken by the three federal banking regulating agencies (the FDIC, the Federal Reserve, and the Office of the Comptroller of the Currency (OCC)) working together rather than independently. Physical bank branch locations should remain an important factor in CRA compliance given their importance in preserving small business access to bank loans in LMI census tracts. The assessment areas for banks that operate largely, if not entirely, without branches, should be expanded to include more communities actually served by the bank.

Congress should pass the American Housing and Economic Mobility Act (S. 787 & H.R. 1737), which would strengthen the CRA in important ways. The bill would expand the scope of entities required to engage in community development and other CRA-qualifying activities to include non-banks, extend the law's scope beyond LMI communities to include "underserved and distressed" communities, and modernize assessment areas by including both areas with physical branches and areas in which the financial institution issues a considerable number of loans or other financial products.

- **Strengthen Community Reinvestment Act Enforcement.** CRA examiners should place more emphasis on the business lending part of CRA exams than they currently do in determining CRA ratings. The change, however, should not be a zero-sum approach, placing more weight on business lending and diminishing the importance of the other types of lending, such as mortgages, in the lending component of the exam. Instead, examiners need to be more stringent in the scoring of performance with respect to all types of lending. Examiners also need to consider the type of small business loans banks are offering, rather than aggregating term loans, lines of credit, and credit cards into a single category.

- **Require banks seeking to merge with or acquire other banks to commit to increased investment in LMI communities.** Regulators should require strong community benefits agreements with community input and measurable goals for approval of mergers and acquisitions. Mergers and acquisitions present one of the rare opportunities for the prudential

regulators to use their authority under the CRA to require banks to fully meet their obligations to invest in LMI census tracts.

● **Require non-bank lenders to serve and invest in their communities.** In any federal charter for fintech lenders, regulators should incorporate the equivalent of CRA requirements for investment in LMI census tracts, fair lending, consumer protection, and safety and soundness oversight similar to those for banks. Fintech charters should not preempt state laws conferring greater protection on business borrowers.

● **Crack down on deceptive and abusive practices by lenders to small business.** The New York Attorney General, Federal Trade Commission (FTC), and Manhattan district attorney have each launched investigations into potentially unfair or deceptive lending practices within the merchant cash advance industry. Government investigations should also include a review of small business lenders' marketing, loan agreements, and loan terms. Congress should pass the Small Business Lending Fairness Act, which would codify an FTC rule banning confessions of judgment in consumer loan agreements, and would expand the ban to business loan agreements.

● **Require non-bank lenders to disclose small business loan APRs to borrowers.** Illinois and other states should adopt a law requiring non-bank financial technology (fintech) companies that make loans to small businesses to disclose annual percentage rates (APRs) to small business borrowers in a way similar to how lenders are required to disclose APRs to individual borrowers under the Truth in Lending Act. Requiring fintech lenders to disclose APRs will create transparency and accountability in the marketplace and combat confusing or misleading loan terms.

● **Extend ability-to-repay protection to small business loans.** Lenders should offer loans only with "high confidence" that the small business borrower can repay the loan. Small business borrowers, many of whom assume personal liability for repayment of loans to their businesses, should receive the same types of protections for small business loans as individuals receive for mortgage loans. Whatever regulatory standards are established for small business loans, the CFPB should have authority over small business loans as it does over consumer loans, especially for the smallest loans and those for which the business owner assumes personal liability.

● **Support and increase funding for Small Business Development Centers.** Illinois and other states should continue to support Small Business Development Centers (SBDCs), particularly those that serve rural areas. SBDCs provide valuable training and technical assistance to small business owners and aspiring entrepreneurs, including help accessing capital. Many small business owners do not take full advantage of the resources SBDCs have to offer, which may be due to a lack of awareness or lack of coordination with the larger rural small business ecosystem. The SBA and states should not only support legislation to protect and increase federal and state funding for SBDCs, but also work to increase awareness of the services SBDCs provide entrepreneurs, particularly around accessing capital.

● **Pass local laws to reward banks that lend to businesses in LMI neighborhoods and communities of color.** Local governments should use responsible banking ordinances that link government bank deposits to community reinvestment performance to encourage financial

institutions to make more small loans to businesses in LMI neighborhoods and communities of color.

● **Invest in underserved and distressed commercial areas.** Municipal investments can catalyze small business development while also repurposing vacant buildings. For example, Chicago's Neighborhood Opportunity Fund recently awarded a $1.6 million grant to the Rebuild Foundation to transform a shuttered school into an arts and business incubator. Cities should consider replicating this model for steering investment to disinvested communities.

● **Help steer Opportunity Zone investments to areas with greatest need.** In at least three ways, cities can play a role in trying to steer Opportunity Zone investments to areas most in need. First, as recommended by the National League of Cities, cities should "[p]repare a point person or agency to play a coordinating/support role to connect investors and local needs, be they development projects or exciting new startups, on an ongoing basis." Second, as recommended by the Governance Project, cities should use the permitting process and zoning code to support projects that address social needs and to curb any potential program abuses. Finally, cities should help convene local nonprofits, CDFIs, and other players to plan ways to maximize the likelihood of attracting worthwhile investments to appropriate locations.

Recommendations for Banks

● **Ensure equal treatment of loan applicants.** Banks should require compliance and fair lending teams to actively take steps to ensure consistency in the delivery of small business products and services. Bank training of small business loan officers should emphasize consistent and fair treatment of all loan applicants. Banks should also ensure that their loan officers understand the culture of the neighborhoods they serve and can relate to the small business owners and entrepreneurs in their communities. Banks should also conduct periodic internal mystery shopping using testers of various backgrounds and protected classes, such as race, ethnicity, national origin, gender, and marital status, to ensure that applicants of different backgrounds receive the same levels of products, services, and assistance. Considering the extent to which lending and banking continue to become more automated and "intelligent," banks should also test their systems to guard against algorithmic bias or other processes that might have a disparate impact on protected classes.

● **Support nonprofit organizations that conduct fair lending and testing, or fair lending research and advocacy.** Banks should support nonprofit organizations that conduct fair lending training and testing or fair lending research and advocacy. To the extent that bank grants or investments in fair lending training, testing, research, and advocacy primarily benefit LMI persons and communities, banks can receive favorable consideration under the CRA investment or community development tests.

● **Promote entrepreneurship opportunities for disadvantaged communities.** Banks (and bank foundations) should adopt "inclusive investing" strategies. Such strategies are designed to affirmatively confront and address "the implicit and structural biases that currently disadvantage women entrepreneurs and entrepreneurs of color."

Recommendations for Non-Bank Lenders

● **Join the Responsible Business Lending Coalition (RBLC) and actively support public policies recommended in this report.** Non-bank lenders should join the RBLC and adopt the lending standards contained in the Business Borrowers' Bill of Rights (BBOR). The BBOR is a comprehensive set of standards, including APR disclosure and rigorous ability-to-repay underwriting. Non-bank lenders should also work with advocates to pass laws that protect borrowers from unfair and abusive practices.

● **Develop a community reinvestment or financial inclusion plan.** Non-bank lenders should develop a plan to invest in the underserved communities that fall within the lender's major markets. The lender's physical presence—if it has any—should not limit the scope of such a plan. The plan should be developed with community input and should have measurable goals. The size of the commitment should be proportional to the lender's business.

INTRODUCTION

The Role of Small Businesses

Small businesses play an important role in creating economic opportunities within communities. They provide local access to goods and services, generate sales tax revenue, and attract new residents to a community.[1] Local businesses can increase employment opportunities for local residents that, in turn, produce additional local economic growth. For example, a study published by the Maine Center for Economic Policy found that every $100 spent at a locally owned business generates $58 in local impact, compared to only $33 when spent at a national chain store.[2] Similarly, the Opportunity Fund's small business microloan program was found to generate nearly $2 of economic activity for every $1 loaned, including roughly $0.56 in additional wages for workers at businesses that received a loan.[3]

Small businesses also provide wealth-building opportunities through entrepreneurism. Entrepreneurship can be especially impactful for persons of color, women, immigrants, and returning citizens, who have historically been left out of the economic mainstream. Building the capacity of entrepreneurs of color can be a channel for addressing unemployment, poverty, and wealth disparities in historically disinvested neighborhoods.[4] Starting a small business also provides opportunities for a growing number of "encore entrepreneurs," or small business owners later in life.[5] While some older adults start businesses by choice, many do so by economic necessity. A survey of 20,000 small business owners, for example, found that women entrepreneurs age 65 and older are more likely to start businesses because they have lost a job or simply need more income, unlike younger entrepreneurs who are more likely to start businesses to take advantage of a business opportunity.[6]

Small Business Access to Capital

Small businesses need access to capital in order to successfully grow and expand. Businesses with access to adequate levels of capital grow more rapidly, hire more workers, and make more investments than businesses that do not have access to adequate capital.[7] Yet, obtaining capital

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[1] Kate Bhan, Regina Willensky, and Annie McGrew, *A Progressive Agenda for Inclusive and Diverse Entrepreneurship*, Center for American Progress, October 2016, accessed October 15, 2016, https://cdn.americanprogress.org/wp-content/uploads/2016/10/13000159/ProgressiveAgenda.pdf.

[2] Amar Patel and Garret Martin, *Going Local: Quantifying the Economic Impacts of Buying from Locally Owned Businesses in Portland, Maine*, Maine Center for Economic Policy, 2011, accessed October 15, 2016, https://www.mecep.org/wp-content/uploads/2011/12/MECEP_Report_-_Buying_Local-12-5-2011.pdf.

[3] TXP, Inc., *Ripple Effect: The Macroeconomic Impact of Small Business Lending, A case study of Opportunity Fund's Small Business Microloan Program from 1995 to 2015*, Opportunity Fund, June 2016, accessed June 5, 2019, https://www.opportunityfund.org/assets/docs/Ripple%20Effect_The%20Macroeconomic%20Impcact%20of%20Small%20Business%20Lending_Opportunity%20Fund_2016.pdf.

[4] Initiative for a Competitive Inner City and the University of Washington Foster School of Business Consulting and Business Development Center, *Helping Entrepreneurs of Color Grow their Business: Early Insights from the Ascend 2020 Initiative,* Initiative for a Competitive Inner City, December 2018, http://icic.org/wp-content/uploads/2018/12/ICIC_Ascend2020_Report_r8_final_post.pdf.

[5] Elizabeth Isele and Edward G. Rogoff, "Senior Entrepreneurship: The New Normal," *Public Policy & Aging Report* 24, no. 4 (2014): 141-147, accessed March 29, 2019, https://doi.org/10.1093/ppar/pru043; Winnie Hu, "Retire? These Graying 'Encore Entrepreneurs' Are Just Starting Up," *The New York Times*, September 17, 2018, accessed March 29, 2019, https://www.nytimes.com/2018/09/17/nyregion/nyc-startups-entrepreneurs-over-50.html.

[6] Patrick J. Kiger, "Many Older Women Start Businesses out of Necessity," Work & Jobs: Small Business, AARP, November 28, 2018, accessed March 29, 2019, https://www.aarp.org/work/small-business/info-2018/why-older-women-start-businesses.html.

[7] U.S. Small Business Administration, Office of Advocacy, *How Did the Financial Crisis Affect Small Business Lending in the United States. A report prepared for the Small Business Administration*, by Rebel A. Cole, November 2012, accessed April 11, 2014, https://www.sba.gov/sites/default/files/files/rs399tot.pdf.

can be a major challenge, particularly for small or nascent firms. According to the 2017 Federal Reserve Bank Small Business Credit Survey, 54 percent of small employer firms applying for capital had a financing shortfall, meaning they obtained less than the amount for which they applied.[8] Banks are the most common source to which small firms apply for credit.[9] Some small business owners are able to tap personal assets, such as home equity, investments, or personal lines of credit, to fund their businesses. In fact, 87 percent of small employer firms use the owner's personal credit score when applying for financing, and 88 percent provide a personal guarantee or use personal assets to secure outstanding debt.[10] Others may be able to borrow funds from family or friends.

Personal sources of capital, however, may not provide the amount of capital needed by many small business owners, particularly those in low- or moderate-income (LMI) areas or communities of color who are unlikely to have equity in their homes or other assets that can be used to support a business.[11] Entrepreneurs of color also face challenges raising capital through formal streams. Minority-owned businesses experience higher costs when borrowing than white-owned businesses, receive smaller loans, and have their loan applications rejected more often than their white counterparts.[12] Minority-owned firms are also less likely than their white counterparts to apply to a bank for credit because they believe their applications will be rejected.[13] For minority-owned businesses operating in neighborhoods of color, these borrowing issues are compounded.[14] Using data from the Census Bureau's Annual Survey of Entrepreneurs, the Kauffman Foundation found entrepreneurs relied on three sources of startup capital: personal and family savings (63.9 percent of all small employer businesses); business loans from banks (17.9 percent); and personal credit cards (10.3 percent).[15] Yet, the degree to which each source is used varied by race. Asian entrepreneurs relied the most on personal and family savings; white entrepreneurs relied the most on business loans from banks; and black entrepreneurs relied the most on personal credit cards.[16] The report states,

> Minorities are disproportionally hurt by the cost of and lack of access to capital. While approximately 16 percent of minority-owned businesses report profits being negatively impacted by the cost and lack of access, only about 10 percent of non-minority-owned businesses report the same. Black entrepreneurs, in particular, are almost three times as likely as whites to have profitability hurt by

[8] Federal Reserve System, *2017 Small Business Credit Survey: Report on Employer Firms*, 2017, accessed June 5, 2019, https://www.fedsmallbusiness.org/medialibrary/fedsmallbusiness/files/2018/sbcs-employer-firms-report.pdf.
[9] Ibid.
[10] Ibid.
[11] U.S. Department of Commerce, Minority Business Development Agency, *Disparities in Capital Access between Minority and Non-Minority-Owned Businesses: The Troubling Reality of Capital Limitations Faced by MBEs*, by Robert W. Fairlie and Alicia M. Robb Washington, January 2010, accessed December 13, 2016, http://www.mbda.gov/sites/default/files/DisparitiesinCapitalAccessReport.pdf; U.S. Small Business Administration, Office of Advocacy, *Access to Capital among Young Firms, Minority-owned Firms, Women-owned Firms, and High-tech Firms*, by Alicia Robb, April 2013, accessed December 13, 2016, https://www.sba.gov/sites/default/files/files/rs403tot(2).pdf.
[12] Timothy Bates and Alicia Robb, "Small-business Viability in America's Urban Minority Communities," *Urban Studies* 51, no. 13 (2014): 2844-2862, https://doi.org/10.1177/0042098013514462.
[13] Ibid.
[14] Ibid.
[15] Alicia Robb and Arnobio Morelix, *Startup Financing Trends by Race: How Access to Capital Impacts Profitability*, Ewing Marion Kauffman Foundation, October 2016, https://www.kauffman.org/-/media/kauffman_org/research-reports-and-covers/2016/ase_brief_startup_financing_by_race.pdf.
[16] Robb and Morelix, *Startup Financing*; Black Tech Mecca, *Black Tech Ecosystems: A Proposed Framework for Defining, Assessing, & Developing Black Tech Communities*, February 2017, https://www.blacktechmecca.org/research.

> lack of access to capital and more than twice as likely as whites to have profits negatively impacted by the cost of capital.[17]

Patient capital is particularly important to nascent firms without the cash flow to repay loans. In response, a robust venture capital industry has evolved over the past few decades. Not all businesses are able to access venture capital to the same degree, however. Businesses owned by women and people of color and those located in rural areas and distressed urban regions have been underserved by the venture capital industry.[18] From 1990 to 2016, entrepreneurs of color represented only 20 percent of entrepreneurs funded by venture capital,[19] and minority-owned businesses represented only 11 percent of pitches to angel investors in 2017.[20]

Rural small business owners face unique capital access challenges. Given the slower rate of recovery in rural areas following the Great Recession, local small businesses play an increasingly valuable role in local rural economies.[21] According to focus groups conducted by Small Business Majority, several rural entrepreneurs noted that jobs currently available in their area do not allow for people to get ahead, and starting a business was one way to build wealth for their families.[22] The report notes, "While access to capital is a common problem for all entrepreneurs, the challenge is heightened in rural areas with fewer banking options."[23] Four in 10 rural entrepreneurs surveyed cited access to capital as a challenge to growing and maintaining a business in the community, with one in five listing it as one of the top three challenges.[24] In addition to the often-cited challenges of credit history and scores, outstanding debt, and a lack of track record that hamper access to capital, rural entrepreneurs cite a lack of trusted lenders in the area.

In the wake of the Great Recession, banks have been reluctant to make smaller dollar loans to businesses.[25] In response to the difficulty of accessing capital, small businesses are increasingly turning to fintech (which refers to non-bank financial technology) or online lenders. According to the 2017 Federal Reserve Small Business Credit Survey, 24 percent of small business borrowers applied to online lenders, up from 20 percent in 2015.[26] Based on a subset of data from the Federal Reserve's 2015 Small Business Credit Survey, researchers at the Federal Reserve found that "[f]irms using online lenders tend to be smaller, younger, and less profitable than firms using traditional lenders, and are more likely to be minority-owned.[27] The business

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[17] Robb and Morelix, *Startup Financing.*
[18] Julia Sass Rubin, "Venture Capital and Underserved Communities," *Urban Affairs Review* 45, no. 6 (2010): 821-835, https://doi.org/10.1177/1078087410361574.
[19] Paul A. Gompers and Sophie Q. Wang, "Diversity in Innovation" (working paper, National Bureau of Economic Research, 2017), https://www.nber.org/papers/w23082.pdf.
[20] Jeffrey Sohl, *The Angel Market in 2017: Angels Remain Bullish for Seed and Start-Up Investing*, Center for Venture Research, May 17, 2018, https://paulcollege.unh.edu/sites/default/files/resource/files/2017-analysis-report.pdf.
[21] Small Business Majority, *Examining the Unique Opportunities and Challenges Facing Rural Small Businesses*, February 12, 2019, https://smallbusinessmajority.org/sites/default/files/research-reports/Opportunities_and_Challenges_Facing_Rural_Small_Businesses.pdf.
[22] Small Business Majority, *Unique Opportunities.*
[23] Ibid.
[24] Ibid.
[25] Karen G. Mills and Brayden McCarthy, "The State of Small Business Lending: Credit Access During the Recovery and How Technology May Change the Game" (working paper, Harvard Business School, 2014), https://www.hbs.edu/faculty/Publication%20Files/15-004_09b1bf8b-eb2a-4e63-9c4e-0374f770856f.pdf; Spencer Cowan and Katie Buitrago, *Struggling to Stay Afloat: Negative Equity in Communities of Color in the Chicago Six County Region*, Woodstock Institute, March 2012, https://woodstockinst.org/wp-content/uploads/2013/05/stayingafloat_march2012_cowanbuitrago_0.pdf; Fairlie and Robb, *Disparities in Capital Access*.
[26] Federal Reserve System, *2017 Small Business Credit Survey*.
[27] Federal Reserve Bank of Cleveland, *Click, Submit: New Insights on Online Lender Applicants from the Small Business Credit* Survey, accessed July 17, 2019, *https://www.clevelandfed.org/newsroom-and-events/publications/special-reports/sr-20161012-click-submit.aspx*.

models for fintech lenders vary, from direct providers of capital to intermediaries or "marketplace lenders" that connect borrowers to lenders, and include both online lenders and merchant cash advance companies.[28]

While small businesses could potentially benefit from having an additional source of capital from fintech lenders, many fintech lenders only provide loans with high interest rates, onerous terms, and relatively poor customer service. Vulnerable small businesses are often inundated with online loan offers. Participants in a survey of rural small business owners conducted by Small Business Majority said they often receive aggressive marketing from fintech companies encouraging them to seek online financing.[29] The report states, "…small business owners said these lenders seem untrustworthy and often offer high fees, making them wary of these options."[30]

A 2016 Woodstock Institute analysis of 15 business loans and merchant cash advances found interest rates ranging from 26 to nearly 368 percent. Every loan with a repayment term under 250 days (eight months) had an effective interest rate of over 100 percent, and every loan with a repayment period of less than 150 days (five months) had an effective rate of over 200 percent.[31] An Opportunity Fund study of 104 California small businesses that sought to refinance their fintech loans through the Fund had similar findings: the average interest rate on the 150 fintech loans it analyzed was 94 percent, with a high of 358 percent.[32] Moreover, the Opportunity Fund analysis shows the average monthly payment on the loans was 178 percent of the net income of the borrower. As the report states, "…every month these borrowers owed more to the

"I've been my own bank. No one should have to do that."
-Marcus Pickett

Photo credit: Claire Strominger

Marcus Pickett – Temperature Doctors Heating & Cooling, Inc.

Marcus Pickett owns Temperature Doctors Heating & Cooling, which was incorporated in Rockford, Illinois, in 2006. Over the past 13 years, Marcus's small business prospered in a market with a steep failure rate for heating, ventilation, and air conditioning (HVAC) businesses. Notably, Temperature Doctors is the first and only African American-owned HVAC business in Rockford. Furthermore, Marcus established an apprenticeship program to train people of color and women in the industry.

Marcus has struggled to secure capital for his small business despite an excellent personal credit score and history of steady revenue growth. The seed money for Temperature Doctors came from personal funds and credit cards because he couldn't rely on the traditional loan system. "I've been my own bank. No one should have to do that," he said. It has been difficult for Marcus to watch banks approve large loans to new, non-minority, and non-established business owners while his own business struggles to get loan approvals.

The approval process often takes as long as a month, despite Marcus's strong revenue and credit history. This has proven to be a particularly burdensome reality for his company, which secures many of its contracts through a bidding process—a process with a relatively small time window.

What could Temperature Doctors do with more capital?

In the past year alone, Marcus lost a multimillion-dollar job contract due to the lengthy approval process for a bank loan for which he applied. Nevertheless, Marcus remains hopeful that improved access to financing options can open up currently closed doors of opportunity for his and other minority-owned small businesses.

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[28] A merchant cash advance differs from a traditional business loan in the manner in which it is repaid. With a merchant cash advance, the borrower assigns a percentage of its receipts to the lender instead of making periodic payments of a fixed amount. For example, a business might agree to pay 15 percent of its cred it card receipts, up to a total of $56,000, for a cash advance of $38,830, with the payments made every business day until the lender receives the full $56,000.

[29] Small Business Majority, *Unique Opportunities.*

[30] Ibid.

[31] The small sample size (15 loans), and the fact that the loans were not a random sample from a larger population, means that the data provide only descriptive statistics of the specific sample and are not generalizable to the larger field of fintech loans as a whole.

[32] Eric Weaver, Gwendy Donaker Brown, Caitlin McShane, and Tim St. Louis, *Unaffordable and Unsustainable: The New Business Lending on Main Street*, Opportunity Fund, May 2016, accessed October 17, 2016, http://www.opportunityfund.org/assets/docs/Unaffordable%20and%20Unsustainable-The%20New%20Business%20Lending%20on%20Main%20Street_Opportunity%20Fund%20Research%20Report_May%202016.pdf.

lender than they had available from both business and personal net income."[33] A survey conducted by the California Reinvestment Coalition (CRC) reveals that high-cost, non-bank online lenders are filling the credit void left by big banks that are retreating from small business lending in the smaller loan amounts that smaller and newer businesses often seek and require.[34] California-based Community Development Financial Institutions (CDFIs), community lenders, and technical assistance providers reported that non-bank online lenders are the default lender for small businesses that cannot access credit from mainstream institutions. Eighty-seven percent of small business organizations responding to the CRC Survey noted that small businesses "often" or "sometimes" turn to merchant cash advances or other products that charge a percentage of future credit card receivables or other revenue to pay off the loan, but 64 percent of respondents said that it was "never" beneficial to the small business owner to do so.

The fintech loans that Woodstock Institute analyzed came with fees that amounted to as much as 14 percent of the gross loan amount. For example, the origination fee on most of the loans was around $300, with a high of $2,800. Other loans included a fee, commonly around $395, for setting up the Automated Clearing House (ACH) debit for payment and a fee of between $100 and $200 for releasing any lien filed under the Uniform Commercial Code. Two common features of the fintech loans Woodstock Institute analyzed are associated with high levels of dissatisfaction among businesses that received loans: (1) the high interest rates, and (2) unfavorable repayment terms.[35] All but one of the loans analyzed required automatic ACH payments each business day. Daily automatic ACH payments requirements mean that the business owners have no ability to prioritize payment of the fintech loan among the range of other financial obligations that small businesses have, such as payments for payroll, taxes, suppliers, and the rent or mortgage. The fintech loan is automatically paid ahead of any other obligation, directly out of cash flow or retained earnings.

Although satisfaction levels have improved in recent years, results from the Federal Reserve System's small business credit survey show high levels of dissatisfaction among businesses that received fintech loans. Net satisfaction with online lenders was 35 percent compared to 49 percent for large banks, 73 percent for small banks, 74 percent for credit unions, and 76 percent for CDFIs. Fifty-two percent of respondents reported dissatisfaction with high interest rates for online lenders compared to 20 percent for large banks and 12 percent for small banks. Thirty-three percent reported dissatisfaction with unfavorable repayment terms for online lenders, compared to 10 percent for large banks and nine percent for small banks.[36]

This Report

This report examines bank lending to businesses in the State of Illinois and nine of its regions: Bloomington, Carbondale, Champaign-Urbana/Danville, Chicago, Moline-Rock Island, Metro East, Peoria, Rockford, and Springfield/Decatur. This report builds on a series of reports released

[33] Ibid.
[34] Kevin Stein and Gina Charusombat, *Displacement, Discrimination and Determination: Small Business Owners Struggle to Access Affordable Credit -Results from a State-Wide Survey in California*, California Reinvestment Coalition, September 2017, http://calreinvest.org/wp-content/uploads/2018/08/CRC20Small20Business20Report.pdf.
[35] Federal Reserve System, *2017 Small Business Credit Survey*.
[36] Ibid.

in 2017 by Woodstock Institute that examined small business lending in eight regions[37] throughout the country, including Chicago.[38] The purposes of this report are threefold: (1) to determine the extent to which banks are meeting the credit needs of small businesses in the State of Illinois; (2) to explore lending trends in a collection of smaller, more rural regions (the 2017 series of reports primarily focused on larger, more urban regions); and (3) to examine whether the income and racial and ethnic access to capital disparities observed in the eight regions studied in the initial series of reports are also evident in Illinois's smaller regions. The report concludes with a series of policy and practice recommendations aimed at improving small business access to capital and addressing disparities.

REPORT METHODOLOGY

The nine regions in this report are built from the U.S. Office of Management and Budget (OMB)'s metropolitan and micropolitan statistical area definitions. For simplicity, some adjacent regions (Danville and Champaign-Urbana, and Decatur and Springfield) have been combined. With the exception of Chicago[39] and the Metro East region, which sits across the Mississippi River from St. Louis, the regions profiled in this report are smaller and more rural in character. Each of the six smaller and more rural regions is anchored by a small- to mid-sized city with a population of less than 150,000 that is surrounded by rural areas. Only the parts of the region located in the State of Illinois were included in this report. Figures on business lending for the Moline-Rock Island region, for example, do not include data for the parts of the region located across the river in Iowa.

The analysis contains three sections:

1. Analysis of long-term trends in small business lending (2000 through 2017);
2. Analysis of small business lending by census tract income level; and
3. Analysis of small business lending by census tract racial and ethnic composition.

The primary source of data on small loans to businesses at the census tract level is reports that large financial institutions (banks) insured by the Federal Deposit Insurance Corporation (FDIC) must submit to the Federal Financial Institutions Examination Council (FFIEC) under the Community Reinvestment Act (CRA).[40]

Only large financial institutions are required to report data, though some smaller lenders report voluntarily. The data do not include loans originated by smaller banks (those with under $1.226 billion in assets), or loans originated by other institutions such as non-bank CDFIs. Therefore, the data cover most, but not all, of the loans originated in Illinois and the nine regions examined

[37] The initial series of reports covered the Chicago, Illinois; Buffalo, New York; Detroit, Michigan; Fresno, California; Los Angeles-San Diego, California; Minneapolis-St. Paul, Minnesota; New Brunswick, New Jersey; and Richmond, Virginia regions.
[38] For copies of the 2017 *Patterns of Disparity* report series, visit www.woodstockinst.org.
[39] For comparability with Woodstock Institute's 2017 report on small business lending in the Chicago region, the Chicago region is defined as including Cook, DuPage, Kendall, McHenry, and Will Counties. Lake County is part of the Lake County-Kenosha County, IL-WI Metropolitan division and is not included.
[40] While only large financial institutions are required to report data, some smaller lenders report voluntarily. In 2017, a total of 718 lenders reported data, with 541 required to report, and 177 reported voluntarily or because they had elected to be evaluated as a "large" institution during CRA examinations. The threshold for reporting in 2017 was $1.226 billion in assets. Together, the data reported includes 89.7 percent of the number and 72.0 percent of the amount of all small loans to businesses - Federal Deposit Insurance Corporation, *Findings from Analysis of Nationwide Summary Statistics for 2017 Community Reinvestment Act Data Fact Sheet*, accessed June 10, 2019, https://www.fdic.gov/news/news/press/2018/pr18078a.pdf.

in this report. Given that rural areas contain a large number of community banks,[41] a greater share of loans in the state's more rural regions may be excluded in the data when compared to more urban areas.

Banks report the number and dollar amounts of loans they originate broken down by three loan amount ranges: (1) less than or equal to $100,000; (2) greater than $100,000 to $250,000; and (3) greater than $250,000 to $1 million. Banks also report loans originated by the census tract in which the business is located.[42] Additionally, banks are required to produce a report on the number and dollar amount of small loans they make to businesses with gross revenue under $1 million, also at the census tract level.[43] For the purposes of reporting, banks generally aggregate any extension of credit, including traditional loans, lines of credit, and credit cards, in the amount reported as loans.[44] Banks usually, but not always, aggregate all extensions of credit to a single business in the reported loans.

Much of the analysis in this report focuses on the segment of CRA-reported lending by banks that is most crucial for neighborhood businesses: loans under $100,000. They constitute 93 percent of all CRA-reported small business loans. Fifty-five percent of small employer firms that sought financing applied for less than $100,000.[45] These are the loans that are most important to startups and small businesses and are also the bulk of loans that the rapidly-growing fintech lenders are providing. For example, the average loan size that online lenders responding to the California Department of Business Oversight survey reported for 2014 was $12,236.[46]

One of the central aims of this report is to analyze lending patterns by the income levels and racial and ethnic composition of census tracts. CRA-reported data provide only one part of the information necessary in order to analyze the extent to which financial institutions reporting under CRA requirements are meeting the credit needs of businesses in LMI census tracts and communities of color. CRA figures include originated loans with no data on the numbers of applications or the amount of loans applied for; they do not, therefore, reflect the full level of demand for bank loans from businesses. Furthermore, CRA-reported small business lending data include only information at the census tract level, and, unlike Home Mortgage Disclosure Act (HMDA) data, do not include information about the borrower such as race or ethnicity.

[41] Randal K. Quarles, "Trends in Urban and Rural Community Banks," Board of Governors of the Federal Reserve System, October 4, 2018, https://www.federalreserve.gov/newsevents/speech/quarles20181004a.htm.
[42] Lenders are required to report the census tract of the loan, but interpreting loan distribution can be complicated. For example, if the proceeds of a small business loan are used in more than one location, the lending institution can record the loan location as either the address of the borrower's business headquarters or the location where the greatest proportion of the proceeds are applied; Federal Deposit Insurance Corporation, *Findings.*
[43] Lenders are not required to collect revenue data for businesses to which they make loans. Therefore, these data may not be comprehensive. For example, if a bank provides a business credit card to a small firm but does not collect revenue data from that firm, it may not report the loan as one to a firm with revenue of less than $1 million. The figures on loans to small firms, therefore, are likely lower than the actual figure.
[44] The aggregation of different kinds of credit—credit cards, lines of credit, and term loans—obscures an important distinction among those different forms of credit. In general, credit cards can provide flexible access to short-term capital for small purchases and to manage cash flow, while term loans would be more appropriate for major capital expenditures such as purchasing new equipment that may require a longer-term repayment option. Some advocates have expressed concerns that too many of the loans are in the form of credit cards and not enough as term loans which might better suit the borrowers' needs or the purposes for which the loans are intended.
[45] Federal Reserve System, *2017 Small Business Credit Survey*.
[46] State of California Business, Consumer Services and Housing Agency, Department of Business Oversight, *California Online Lending Grows by More than 930% Over Five Years: Increase Outpaces U.S. Rate by 236 Percentage Points*, April 8, 2016, https://dbo.ca.gov/wp-content/uploads/sites/296/2019/02/Survey-Response-Release-04-08-16.pdf.

As a proxy for demand for business loans, this report uses data on the number of business addresses by census tract. These data are produced by U.S. Department of Housing and Urban Development (HUD) in partnership with the United States Postal Service (USPS). The number of active businesses addresses can serve as a proxy for business loan demand, assuming that demand for loans in a given census tract is consistently proportional to the number of businesses in that tract. Data for census tract income levels are taken from FFIEC figures of the median family income level relative to the metropolitan area in which it is located, which are included in the FFIEC CRA data files. For the purposes of analyzing the data by income level, this report uses the same income category definitions used by the FFIEC and other federal agencies:

- Low-income census tracts have a median family income less than 50 percent of the Area Median Family Income;
- Moderate-income census tracts have a median family income from 50 percent to less than 80 percent of the Area Median Family Income;
- Middle-income tracts have a median family income from 80 percent to less than 120 percent of the Area Median Family Income; and
- Upper-income tracts have a median family income 120 percent or more of the Area Median Family Income.

Data on the proportion of a census tract's residents that are people of color (defined as the proportion of the population that is non-white and those of Hispanic/Latino origin, regardless of race) are from the 2017 Five-Year American Community Survey.[47]

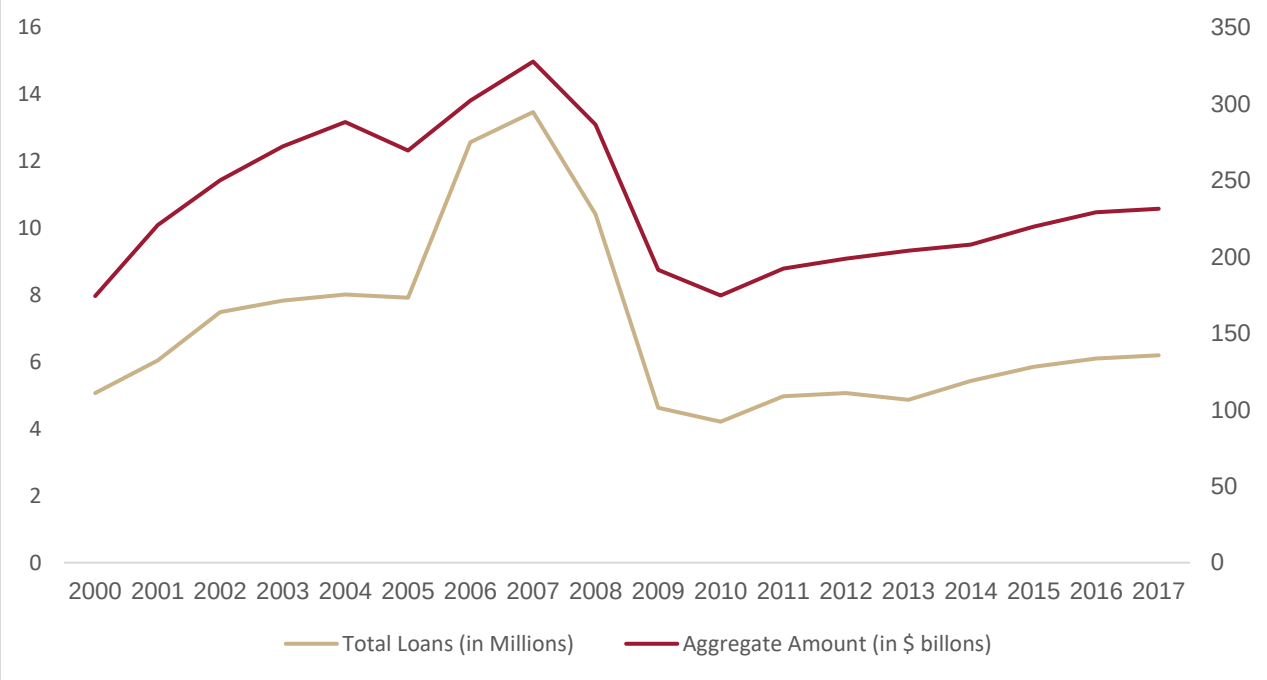
[47] This report examines lending to businesses in census tracts with different demographic characteristics, which is not the same as ownership of the business. A businesses in a predominantly Hispanic/Latino census tracts, for example, could have a non-Hispanic/Latino owner. One consistent source of data on access to loans by the race or ethnicity of the business owner is from the SBA, which provides a relatively small percentage of business loans overall; Alan Fisher, *Small Business Access to Credit: The Little Engine that Could: If Banks Helped*, California Reinvestment Coalition, December 2013, accessed January 5, 2017, https://community-wealth.org/sites/clone.community-wealth.org/files/downloads/paper-fisher.pdf is a study of small business lending using SBA data to examine disparities in access to loans by minority-or Hispanic/Latino-owned businesses. It found that the number of SBA loans by the five leading banks in California declined by 58.8 percent between 2007 and 2013, while the number of those loans to African American-owned businesses declined by 93 percent and the number of SBA loans to Hispanic/Latino-owned businesses declined by 73 percent; Timothy Bates and Alicia Robb, "Impacts of Owner Race and Geographic Context on Access to Small-Business Financing," *Economic Development Quarterly* 30, no. 2 (2016):159-170, https://doi.org/10.1177/0891242415620484, used data from the Kauffman Firm Survey and found that minority-owned businesses are heavily concentrated in minority neighborhoods, that firms with an African American owner were significantly less likely to apply for loans, and that they received smaller loans, than firms with owners who were not African American.

LONG-TERM TRENDS IN CRA-REPORTED BUSINESS LENDING

National Trends

After extraordinary growth in CRA-reported small business lending between 2000 and 2007, the total number of CRA-reported loan originations dropped dramatically from their peak of 13.5 million in 2007 to 4.2 million in 2010 (see Figure 1). Similarly, the total dollar amount of loans grew to $328 billion in 2007, dropping to nearly half that amount by 2010 at $175 billion. Since then, recovery has been slow. By 2012, loan levels had finally surpassed levels in 2000, but as of 2017 (the most recent year for which data are available), lending levels remained significantly below pre-Recessionary levels.

Figure 1: Total Number and Dollar Amount of CRA-Reported Loans, 2000-2017, Nationally

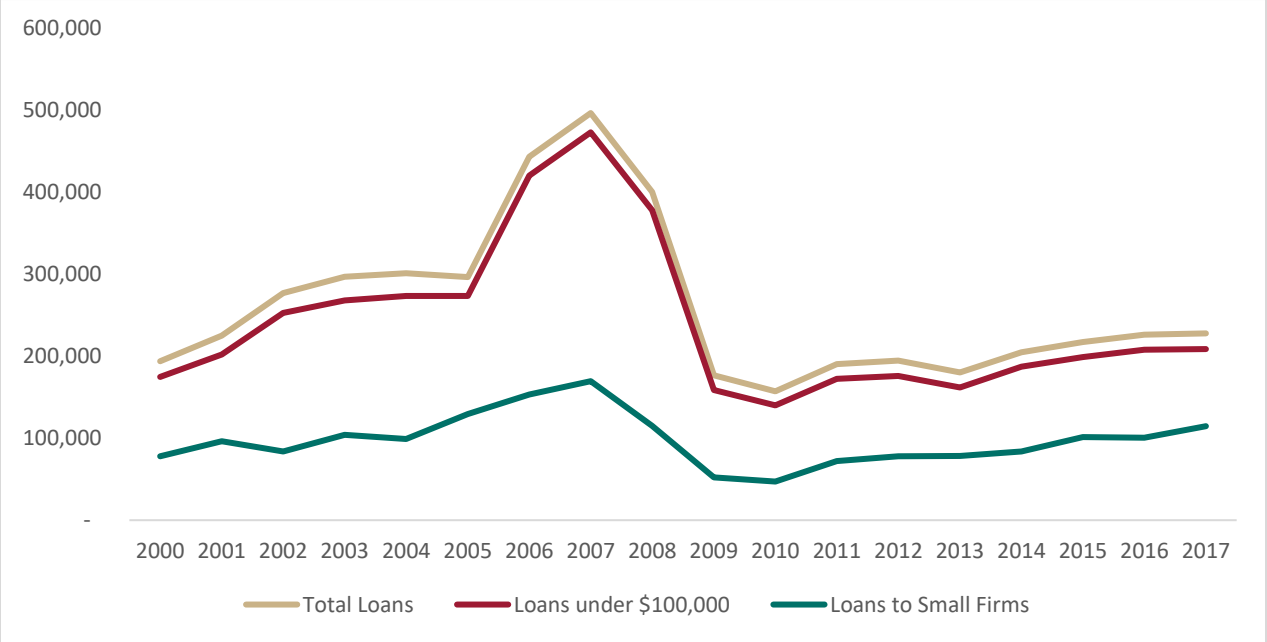


Source: FFIEC CRA data, 2000-2017.

Illinois Trends

Long-term trends in CRA-reported small business loan originations in Illinois largely mirrored that of the nation as a whole. The total number of originations grew 156 percent from 2000 to their peak in 2007, similar to the national growth rate of 166 percent during this period (see Figure 2 and Table 1). In the wake of the Great Recession, lending dropped by 68 percent. Since then, lending levels have slowly rebounded. Originations in Illinois grew 45 percent from 2010 to 2017, similar to the national rate of 47 percent. As of 2017, the total number of originations was 18 percent higher than it was in 2000. The number of loans made in amounts less than $100,000, which makes up the vast majority of CRA-reported loans and are those most crucial to the smallest businesses, fluctuated slightly from a high of 95 percent of all loans in 2006 and 2007 to a low of 89 percent in 2010. As of 2017, the proportion of loans originated under $100,000 was 92 percent. Loans to small firms, defined as those with gross annual revenues of less than $1 million, reached their highest proportion in 2017 at 50 percent of all loan originations, up from its lowest point in 2009 at 29 percent.

Figure 2: Number of CRA-Reported Loans, 2000-2017 State of Illinois



Source: FFIEC CRA data, 2000-2017.

Table 1: Change in Number of CRA-Reported Loans

	2000-2007	2007-2010	2010-2017	2000-2017
Illinois	156%	-68%	45%	18%
United States	166%	-69%	47%	22%

Source: FFIEC CRA data, 2000-2017; Author's calculations.

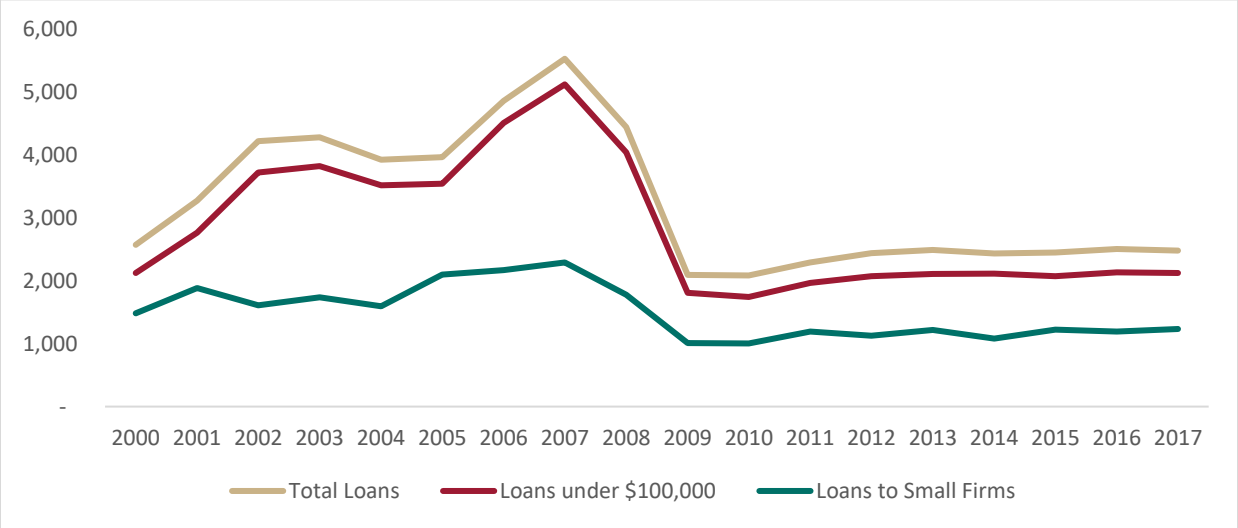
Regional Trends

Bloomington Region

Data for the Bloomington region include DeWitt and McLean Counties.

Compared to other parts of Illinois and to state and national trends, CRA-reported lending patterns in the Bloomington region were slightly less volatile. The number of loans originated in the Bloomington region increased 115 percent from 2000, peaking in 2007 similar to statewide trends, albeit at a lesser rate (see Figure 3 and Table 2). Loan totals decreased in the wake of the Great Recession, dropping 62 percent from 2007 to 2010. This is the smallest drop among the nine regions included in this report and is smaller than the state and national rates of 68 and 69 percent, respectively. Since then, lending rebounded modestly, increasing 19 percent from 2010 to 2017, but, as of 2017, the number of loans sat slightly below (four percent) 2000 levels.

Figure 3: Number of CRA-Reported Loans, 2000-2017, Bloomington Region



Source: FFIEC CRA data, 2000-2017.

Table 2: Change in Number of CRA-Reported Loans

	2000-2007	2007-2010	2010-2017	2000-2017
Bloomington Region	115%	-62%	19%	-4%
Illinois	156%	-68%	45%	18%
United States	166%	-69%	47%	22%

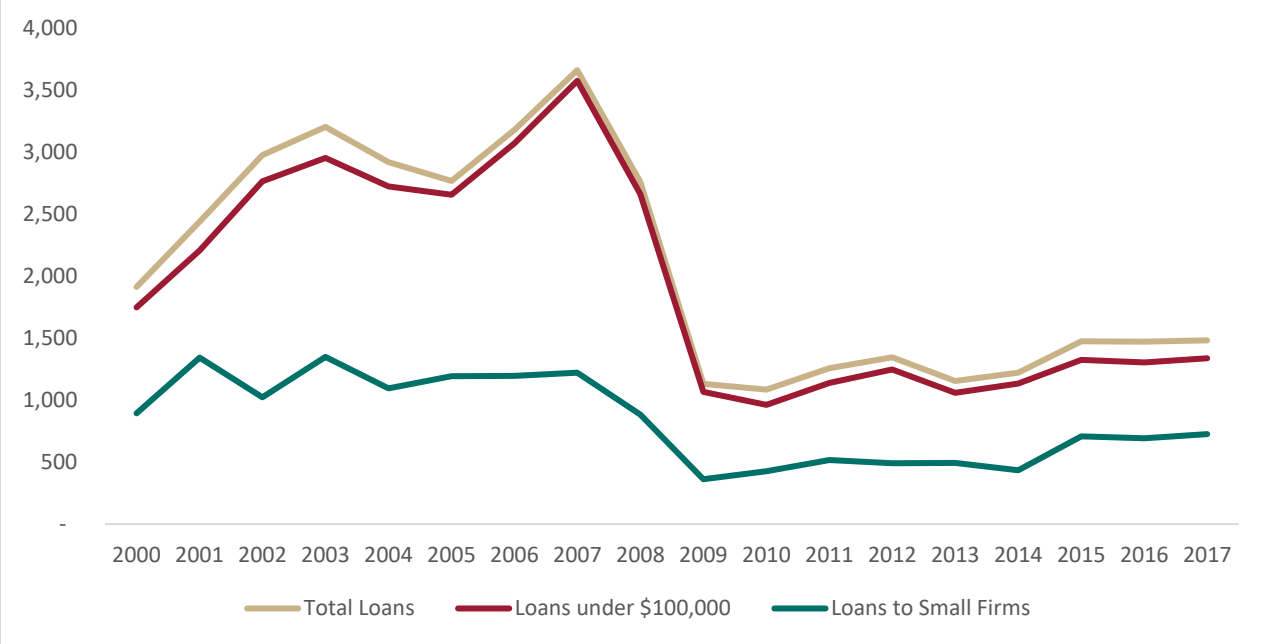
Source: FFIEC CRA data, 2000-2017; Author's calculations.

Carbondale Region

Data for the Carbondale region include Jackson and Williamson Counties.

The Carbondale region did not experience the same high rate of growth leading up to the Great Recession as other parts of the state. CRA-reported small business loan originations increased 91 percent from 2000 to 2007 compared to 156 for the state and 166 for the nation (see Figure 4 and Table 3). Nonetheless, the region experienced the second-largest drop (70 percent) in lending in the wake of the Great Recession of the nine regions included in this report, exceeding the state and national rates of 68 and 69 percent, respectively. Lending is recovering in the area, increasing 37 percent between 2010 and 2017 at a slower rate than the state and nation. As of 2017, the number of loans sat 22 percent below levels in 2000.

Figure 4: Number of CRA-Reported Loans, 2000-2017, Carbondale Region



Source: FFIEC CRA data, 2000-2017.

Table 3: Change in Number of CRA-Reported Loans

	2000-2007	2007-2010	2010-2017	2000-2017
Carbondale Region	91%	-70%	37%	-22%
Illinois	156%	-68%	45%	18%
United States	166%	-69%	47%	22%

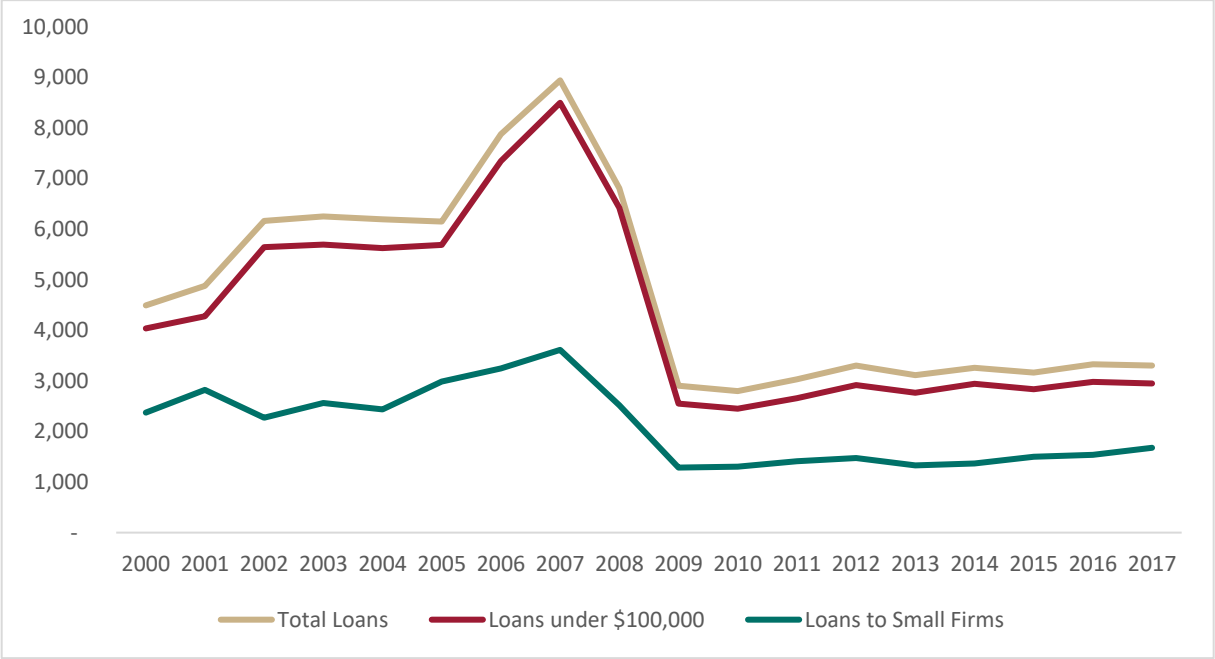
Source: FFIEC CRA data, 2000-2017; Author's calculations.

Champaign-Urbana/Danville Region

Data for the Champaign-Urbana/Danville region include Champaign, Ford, Piatt, and Vermilion Counties.

Post-Recession recovery in small business lending has been modest in the Champaign-Urbana/Danville region. The number of loan originations increased 99 percent from 2000 to 2007, which is less than the state and national increases of 156 and 166 percent, respectively (see Figure 5 and Table 4). Lending dipped 69 percent from 2007 to 2010 in tandem with state and national trends. Since then, loan originations increased a modest 18 percent, and, as of 2017, sat 26 percent below 2000 levels.

Figure 5: Number of CRA-Reported Loans, 2000-2017, Champaign-Urbana/Danville Region



Source: FFIEC CRA data, 2000-2017.

Table 4: Change in Number of CRA-Reported Loans

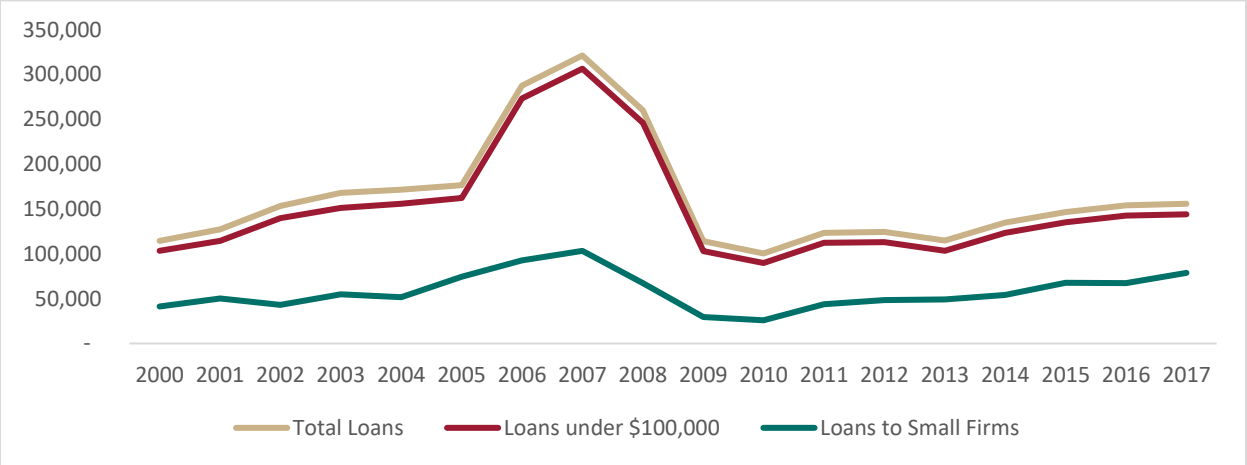
	2000-2007	2007-2010	2010-2017	2000-2017
Champaign-Urbana/Danville Region	99%	-69%	18%	-26%
Illinois	156%	-68%	45%	18%
United States	166%	-69%	47%	22%

Source: FFIEC CRA data, 2000-2017; Author's calculations.

Chicago Region

Data for the Chicago region includes Cook, DuPage, Kendall, McHenry, and Will Counties. CRA-reported lending in the Chicago region increased significantly from 2000 to 2007 (180 percent), exceeding the rate of growth of the nation and Illinois (see Figure 6 and Table 5). From 2006 to 2010, loan totals dropped 69 percent in tandem with state and national trends. Since 2010, lending slowly but steadily rebounded. Originations grew 55 percent from 2010 to 2017—the highest of the nine regions examined in this report—and exceeded state and national increases. As of 2017, loan originations were 36 percent higher than they were in 2000. Chicago is the only region among the nine to experience double-digit growth from 2000 and to exceed the post-Recessionary growth rates of the state and nation.

Figure 6: Number of CRA-Reported Loans, 2000-2017, Chicago Region



Source: FFIEC CRA data, 2000-2017.

Table 5: Change in Number of CRA-Reported Loans

	2000-2007	2007-2010	2010-2017	2000-2017
Chicago Region	180%	-69%	55%	36%
Illinois	156%	-68%	45%	18%
United States	166%	-69%	47%	22%

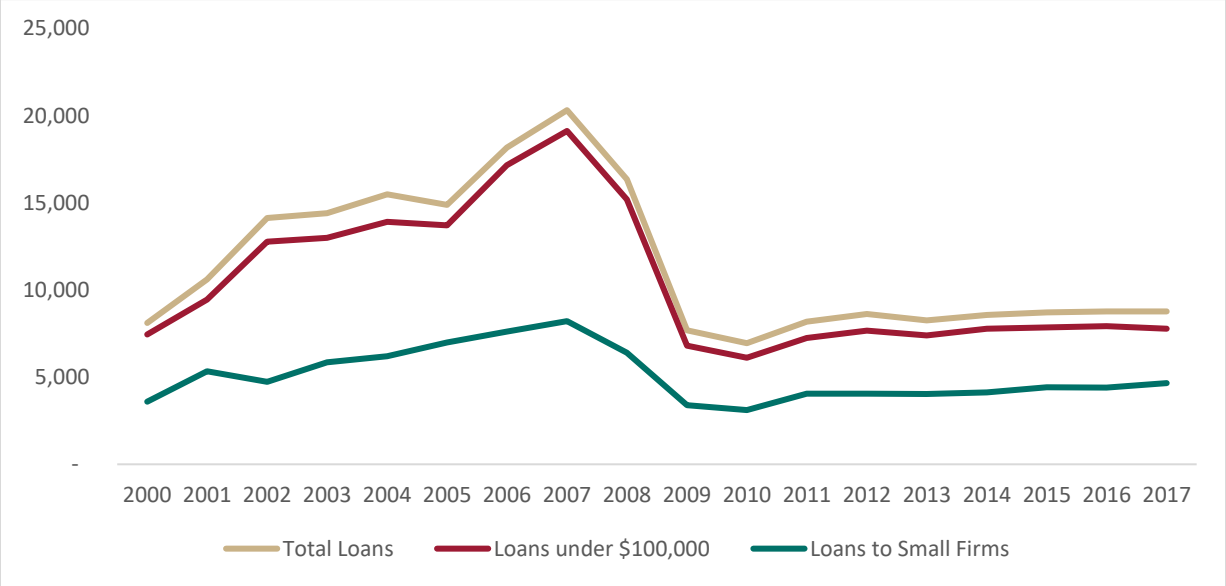
Source: FFIEC CRA data, 2000-2017; Author's calculations.

Metro East Region

The Metro East region refers to the area east of St. Louis in Illinois. Data for the Metro East region includes Bond, Calhoun, Clinton, Jersey, Macoupin, Madison, Monroe, and St. Clair Counties.

The Metro East region was one of two regions, along with Chicago, where CRA-reported business lending patterns since 2000 closely mirrored that of the state and nation as a whole. Figures grew significantly (150 percent) from 2000 to 2007 and bottomed out in the wake of the Great Recession, reaching their lowest point in 2010 (see Figure 7 and Table 6). Since then, recovery has been slow and modest, yet positive. Loans increased 26 percent from 2010 to 2017. Metro East was the only other region besides Chicago where lending levels were above (eight percent) what they were in 2000. This is less than the national and statewide increases of 22 and 18 percent, respectively.

Figure 7: Number of CRA-Reported Loans, 2000-2017, Metro East Region



Source: FFIEC CRA data, 2000-2017.

Table 6: Change in Number of CRA-Reported Loans

	2000-2007	2007-2010	2010-2017	2000-2017
Metro East Region	150%	-66%	26%	8%
Illinois	156%	-68%	45%	18%
United States	166%	-69%	47%	22%

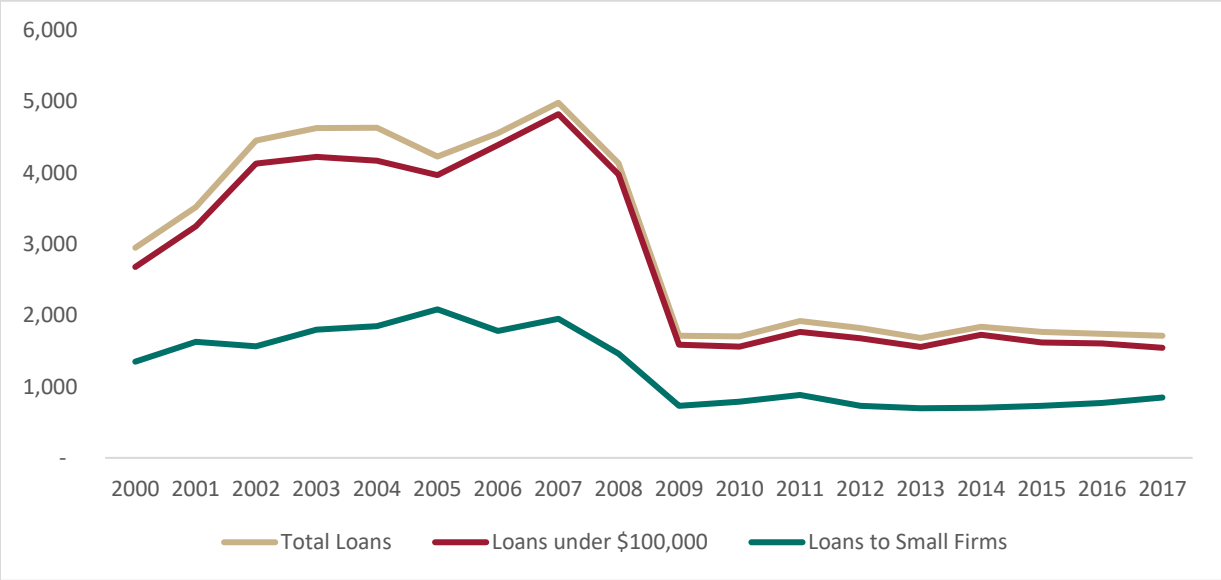
Source: FFIEC CRA data, 2000-2017; Author's calculations.

Moline-Rock Island Region

Data for the Moline-Rock Island region include Henry, Mercer, and Rock Island Counties.

CRA-reported business lending trends in the Moline Rock-Island region differ significantly from state and national trends. The region did not experience the heavy growth in small business loan originations leading up to the Great Recession, increasing only 69 percent from 2000 to 2007 (see Figure 8 and Table 7). This is the lowest rate of growth among the nine regions examined in this report and is more than half the national and state growth rates. Nonetheless, lending still decreased 66 percent from 2007 to 2010, similar to the statewide and nationwide drops of 68 and 69 percent, respectively. Since then, CRA-reported lending has not recovered. Total loan figures in 2017 were the same as those in 2010, and the total number of CRA-reported loans sat 42 percent below 2000 figures as of 2017, the lowest of the nine regions included in this report.

Figure 8: Number of CRA-Reported Loans, 2000-2017, Moline-Rock Island Region



Source: FFIEC CRA data, 2000-2017.

Table 7: Change in Number of CRA-Reported Loans

	2000-2007	2007-2010	2010-2017	2000-2017
Moline-Rock Island Region	69%	-66%	0%	-42%
Illinois	156%	-68%	45%	18%
United States	166%	-69%	47%	22%

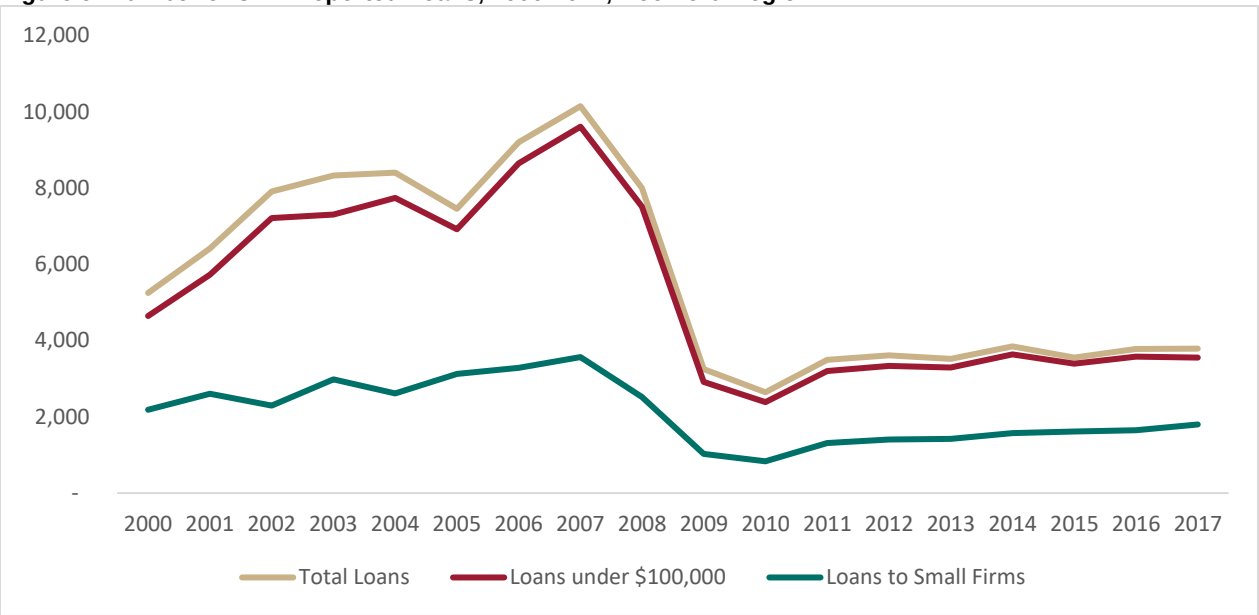
Source: FFIEC CRA data, 2000-2017; Author's calculations.

Rockford Region

Data for the Rockford region include Boone and Winnebago Counties.

The Rockford region experienced the largest drop among the nine regions included in this report in CRA-reported small business originations in the wake of the Great Recession, decreasing 74 percent from 2007 to 2010 (see Figure 9 and Table 8). This drop occurred despite modest overall growth from 2000 to 2007 (93 percent), compared to state and national growth rates of 156 percent and 166 percent, respectively, during this period. Lending did rebound significantly, increasing 43 percent from 2010 to 2017, which only slightly lags behind state and national growth (45 and 47 percent, respectively). Yet, loan originations remained at 28 percent below 2000 levels as of 2017.

Figure 9: Number of CRA-Reported Loans, 2000-2017, Rockford Region



Source: FFIEC CRA data, 2000-2017.

Table 8: Change in Number of CRA-Reported Loans

	2000-2007	2007-2010	2010-2017	2000-2017
Rockford Region	93%	-74%	43%	-28%
Illinois	156%	-68%	45%	18%
United States	166%	-69%	47%	22%

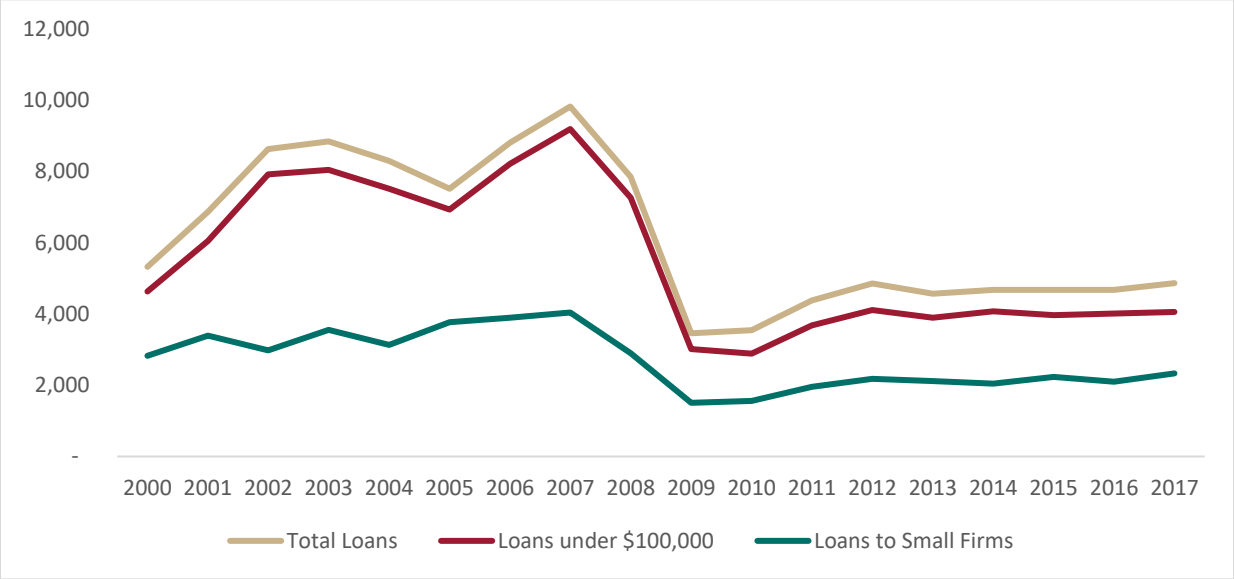
Source: FFIEC CRA data, 2000-2017; Author's calculations.

Peoria Region

Data for the Peoria region include Marshall, Peoria, Stark, Tazewell, and Woodford Counties.

Like the Bloomington region, lending patterns were slightly less volatile in the Peoria region when compared to other parts of the state and when compared to state and national trends. Lending increased 84 percent from 2000 to 2007 and dropped 64 percent in the wake of the Great Recession (compared to 68 percent in Illinois and 69 percent for the nation as a whole; see Figure 10 and Table 9). Figures rebounded 37 percent from 2010 to 2017, but, as of 2017, sat slightly below (nine percent) what they were in 2000.

Figure 10: Number of CRA-Reported Loans, 2000-2017, Peoria Region



Source: FFIEC CRA data, 2000-2017.

Table 9: Change in Number of CRA-Reported Loans, Peoria Region

	2000-2007	2007-2010	2010-2017	2000-2017
Peoria Region	84%	-64%	37%	-9%
Illinois	156%	-68%	45%	18%
United States	166%	-69%	47%	22%

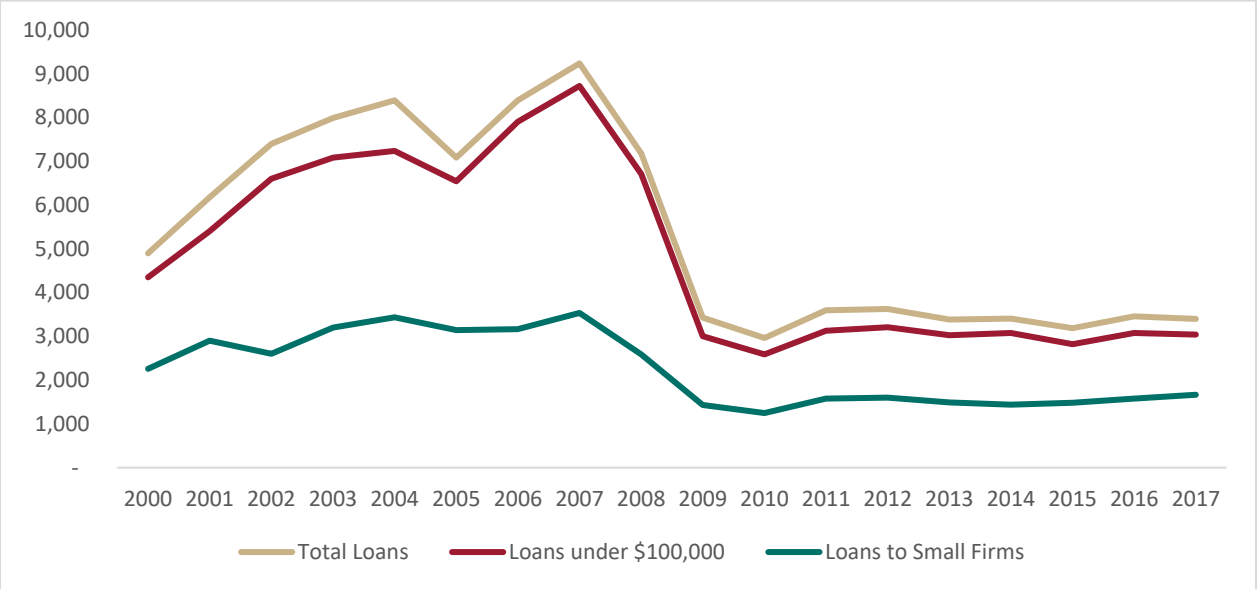
Source: FFIEC CRA data, 2000-2017; Author's calculations.

Springfield/Decatur Region

Data for the Springfield/Decatur region include Macon, Menard, and Sangamon Counties.

CRA-reported small business lending in the Springfield/Decatur region has been very slow to recover from the Great Recession. After dipping 68 percent from 2007 to 2010 in tandem with the state and nation, lending levels rebounded only 15 percent by 2017 (see Figure 11 and Table 10), which is the second lowest rate of recovery among the nine regions included in this report. The number of loans in 2017 was 31 percent below the number in 2000.

Figure 11: Number of CRA-Reported Loans, 2000-2017, Springfield/Decatur Region



Source: FFIEC CRA data, 2000-2017.

Table 10: Change in Number of CRA-Reported Loans, Springfield/Decatur Region

	2000-2007	2007-2010	2010-2017	2000-2017
Springfield/Decatur Region	89%	-68%	15%	-31%
Illinois	156%	-68%	45%	18%
United States	166%	-69%	47%	22%

Source: FFIEC CRA data, 2000-2017; Author's calculations.

Regional Comparison

Many of Illinois's smaller regions did not see a large uptick in CRA-reported small business lending leading up to the Great Recession but nonetheless experienced the same significant declines in originations in its wake (see Table 11). Recovery rates from 2007 to 2010 varied from region to region. The Chicago region experienced the largest growth in originated loans (55 percent), while the Moline-Rock Island region saw no increase in lending during this period. CRA-reported lending in the Moline-Rock Island region has remained stagnant since the Great Recession and has yet to show much sign of recovery. With the exception of Illinois's two larger, urban regions (Chicago and Metro East), CRA-reported small business lending as of 2017 was below what it was in 2000 in each region and sat significantly lower than pre-Recessionary levels. This is likely indicative of larger systemic trends and challenges in these smaller, more rural regions.

The trend of uneven recovery in small business lending is further evident in the number of loans originated per business addresses. The Chicago region reported the largest number of CRA-reported loans per 100 business addresses for the period from 2015 to 2017 at 164.0 loans per 100 business addresses, followed by Bloomington at 112.7 and Metro East at 112.5 loans per 100 business addresses. The Moline-Rock Island region reported the lowest number of loans per business addresses at 69.4 loans per 100 business addresses (see Table 12). As the CRA-reported data reports only originations and not applications for small business loans, the data do not provide a comprehensive measure of demand for capital in each region. Since smaller financial institutions are not required to report small business lending data under the CRA, it is not possible to determine to what degree low CRA-loan figures per 100 business addresses reflect a larger market share of smaller, community banks in these areas versus lower lending levels overall. If it is the latter, lower ratios of loans to businesses in certain regions may indicate economic challenges in those areas.

Table 11: Change in Number of CRA-Reported Loans, Nine Regions, Illinois, and Nation

	2000-2007	2007-2010	2010-2017	2000-2017
Bloomington	115%	-62%	19%	-4%
Carbondale	91%	-70%	37%	-22%
Champaign-Urbana/Danville	99%	-69%	18%	-26%
Chicago	180%	-69%	55%	36%
Metro East	150%	-66%	26%	8%
Moline-Rock Island	69%	-66%	0%	-42%
Peoria	84%	-64%	37%	-9%
Rockford	93%	-74%	43%	-28%
Springfield/Decatur	89%	-68%	15%	-31%
Illinois	156%	-68%	45%	18%
United States	166%	-69%	47%	22%

Source: FFIEC CRA data, 2000-2017; Author's calculations.

Table 12: Total Loans per 100 Business Addresses, 2015-2017, Nine Regions, Illinois, and Nation

	Loans per 100 Businesses
Bloomington	112.7
Carbondale	78.9
Champaign-Urbana/Danville	88.8
Chicago	164.0
Metro East	112.5
Moline-Rock Island	69.4
Peoria	101.6
Rockford	88.7
Springfield/Decatur	79.4
Illinois	139.5
United States	144.5

Source: FFIEC CRA data, 2015-2017; HUD/USPS Vacancy Data, Q1-2, 2015-2017; Author's calculations.

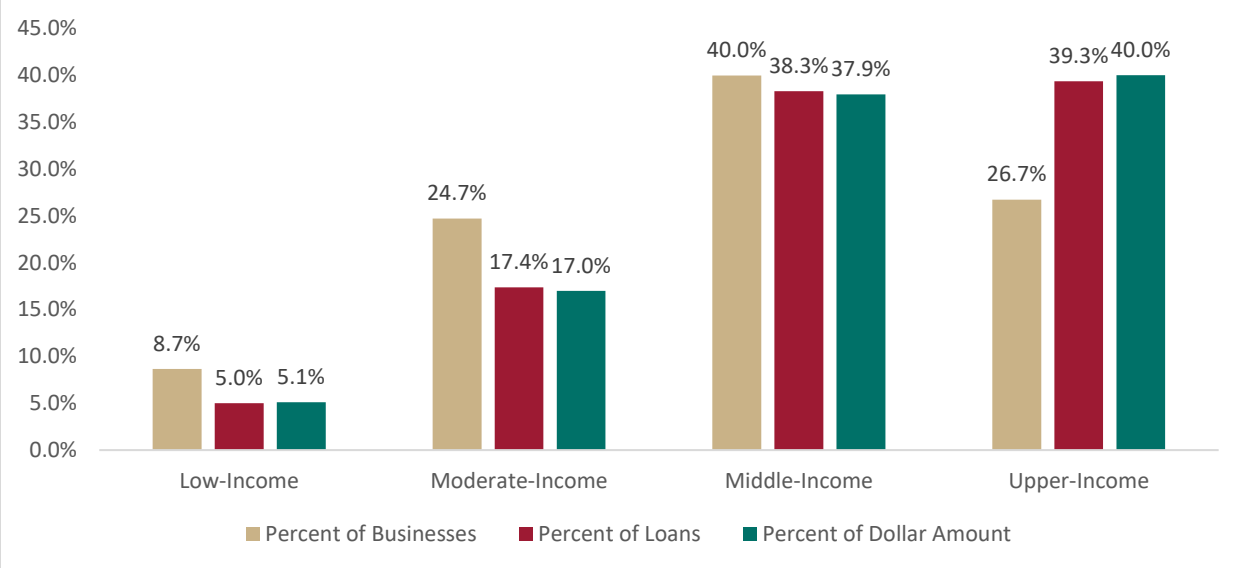
CRA-REPORTED BUSINESS LENDING BY CENSUS TRACT INCOME LEVEL

This section of the report focuses on the smaller-value CRA-reported loans (loans less than $100,000) most likely to support smaller, local businesses that provide employment and wealth-building opportunities for local residents. From 2015 to 2017, businesses in LMI census tracts received a smaller percentage of CRA-reported loans under $100,000 both in terms of the total number of loans and total dollar amount of those loans than their respective shares of business addresses. This was true nationally, at the statewide level, and across all nine regions analyzed in this report.

National Trends

Nationally, for the period 2015 through 2017, 33.4 percent of business addresses were located in LMI census tracts, but they received only 22.4 percent of CRA-reported loans under $100,000 and 22.1 percent of the total dollar amount of loans those loans (see Figure 12). Conversely, 26.7 percent of businesses were located in upper-income census tracts, but they received a disproportionately larger share (39.3 percent) of loans under $100,000 and of the dollar amount of those loans (40.0 percent). If businesses in LMI tracts had received CRA-reported loans under $100,000 in proportion to their share of business addresses overall, they would have received 1.7 million more loans over the three-year period, totaling $25.3 billion.

Figure 12: Percent of Businesses, Loans, and Dollar Amount for Loans under $100,000 by Census Tract Income Level, 2015-2017, Nation

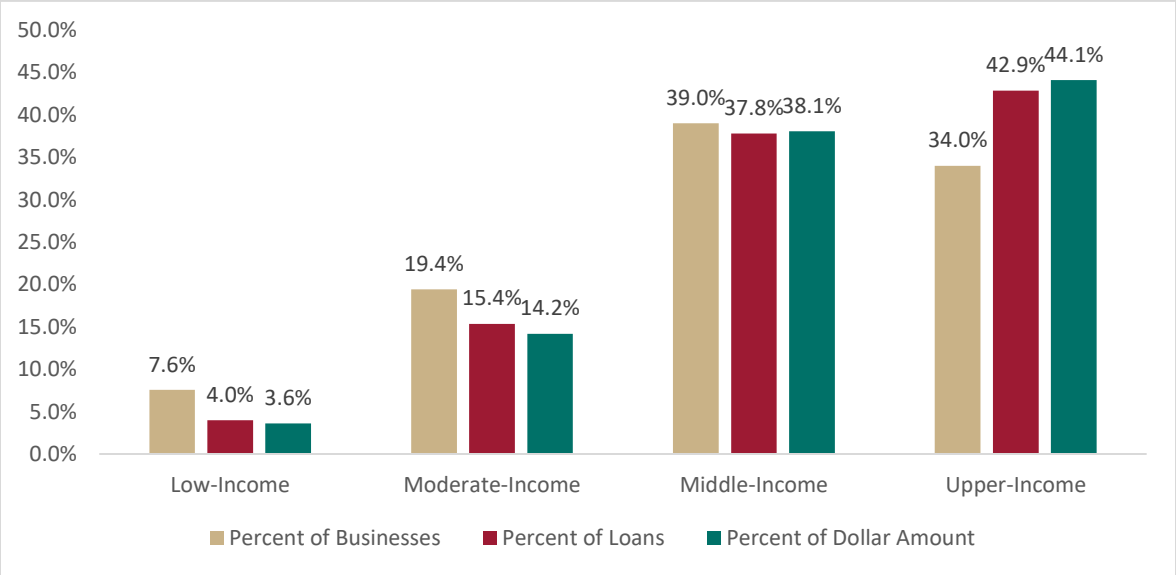


Sources: FFIEC CRA data, 2015-2017; HUD/USPS Vacancy Data, Q1-4, 2015-2017; Author's calculations.

Illinois Trends

For the period 2015 to 2017, 27.0 percent of business addresses in Illinois were located in LMI census tracts. LMI census tracts, however, received only 19.4 percent of all CRA-reported loans under $100,000 and 17.8 percent of the total dollar amount of loans (see Figure 13). This lending disparity is slightly smaller than that of the U.S. as a whole. If Illinois businesses in LMI tracts had received CRA-reported loans under $100,000 in proportion to their share of business addresses overall, they would have received 46,648 more loans over the three-year period, totaling $618 million.

Figure 13: Percent of Businesses, Loans, and Dollar Amount for Loans under $100,000 by Census Tract Income Level, 2015-2017, Illinois



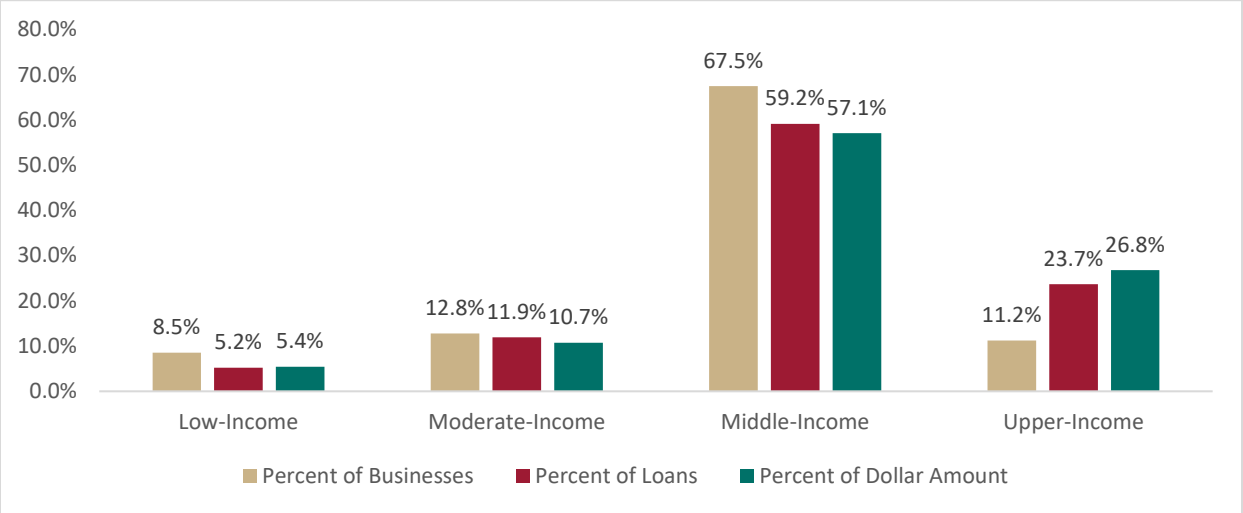
Sources: FFIEC CRA data, 2015-2017; HUD/USPS Vacancy Data, Q1-4, 2015-2017; Author's calculations.

Regional Trends

Bloomington Region

In the Bloomington region, for the period 2015 through 2017, 21.3 percent of business addresses were located in LMI census tracts, but they received only 17.1 percent of CRA-reported loans under $100,000 and 16.1 percent of the total dollar amount of loans (see Figure 14). If businesses in LMI tracts had received loans in proportion to their share of business addresses overall, they would have received 261 more loans over the three-year period, totaling $5.9 million.

Figure 14: Percent of Businesses, Loans, and Dollar Amount for Loans under $100,000 by Census Tract Income Level, 2015-2017, Bloomington Region

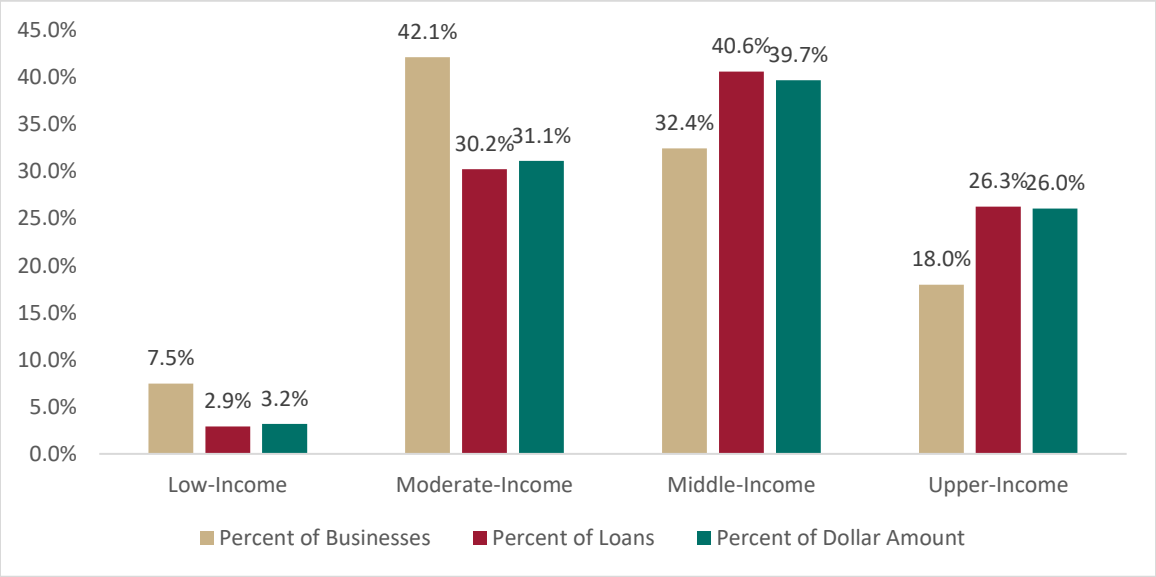


Sources: FFIEC CRA data, 2015-2017; HUD/USPS Vacancy Data, Q1-4, 2015-2017; Author's calculations.

Carbondale Region

In the Carbondale region, for the period 2015 through 2017, 49.6 percent of business addresses were located in LMI census tracts, but they received only 33.1 percent of CRA-reported loans under $100,000 and 34.3 percent of the total dollar amount of loans (see Figure 15). If businesses in LMI tracts had received CRA-reported loans under $100,000 in proportion to their share of business addresses overall, they would have received 634 more loans over the three-year period, totaling $9.6 million.

Figure 15: Percent of Businesses, Loans, and Dollar Amount for Loans under $100,000 by Census Tract Income Level, 2015-2017, Carbondale Region

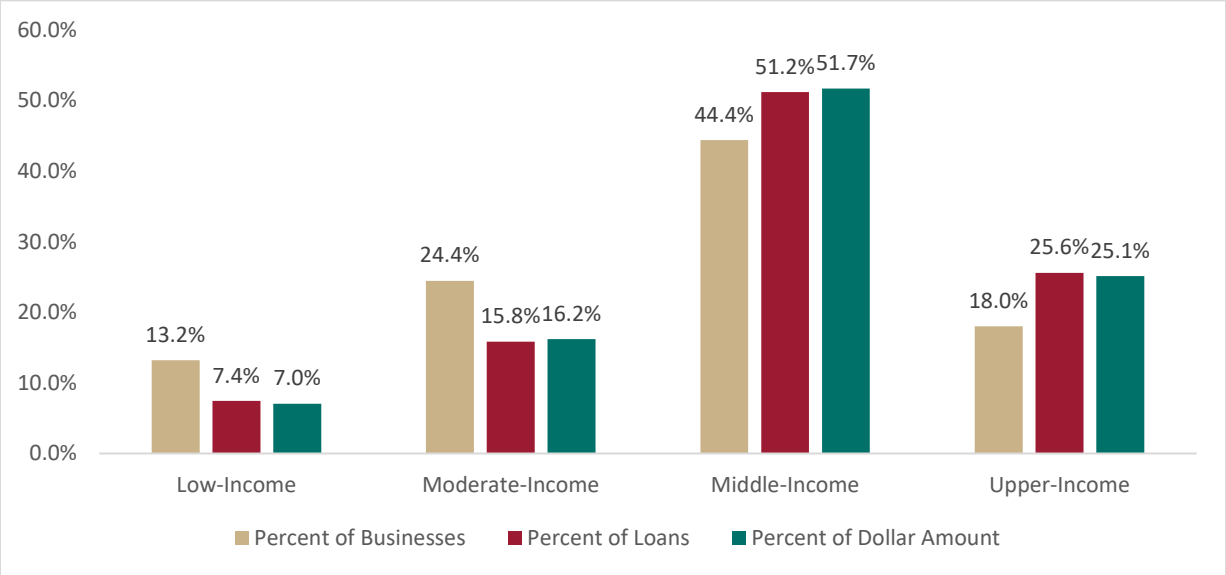


Sources: FFIEC CRA data, 2015-2017; HUD/USPS Vacancy Data, Q1-4, 2015-2017; Author's calculations.

Champaign-Urbana/Danville Region

In the Champaign-Urbana/Danville region, for the period 2015 through 2017, 37.6 percent of business addresses were located in LMI census tracts, but they received only 23.2 percent of loans and 13.2 percent of the total dollar amount of loans (see Figure 16). If businesses in LMI tracts had received CRA-reported loans under $100,000 in proportion to their share of business addresses overall, they would have received 1,231 more loans over the three-year period, totaling $18.7 million.

Figure 16: Percent of Businesses, Loans, and Dollar Amount for Loans under $100,000 by Census Tract Income Level, 2015-2017, Champaign-Urbana/Danville Region

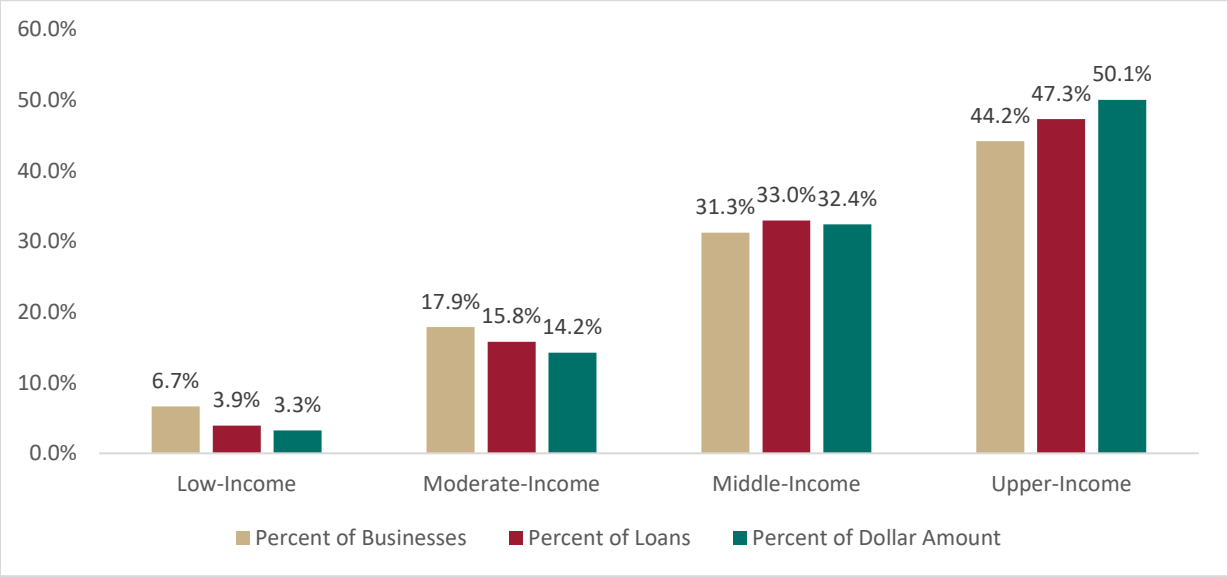


Sources: FFIEC CRA data, 2015-2017; HUD/USPS Vacancy Data, Q1-4, 2015-2017; Author's calculations.

Chicago Region

In the Chicago region, for the period 2015 through 2017, 24.6 percent of business addresses were located in LMI census tracts, but they received only 19.7 percent of loans and 17.5 percent of the total dollar amount of loans (see Figure 17). If businesses in LMI tracts had received CRA-reported loans under $100,000 in proportion to their share of business addresses overall, they would have received 20,159 more loans over the three-year period, totaling $372.6 million.

Figure 17: Percent of Businesses, Loans, and Dollar Amount for Loans under $100,000 by Census Tract Income Level, 2015-2017, Chicago Region

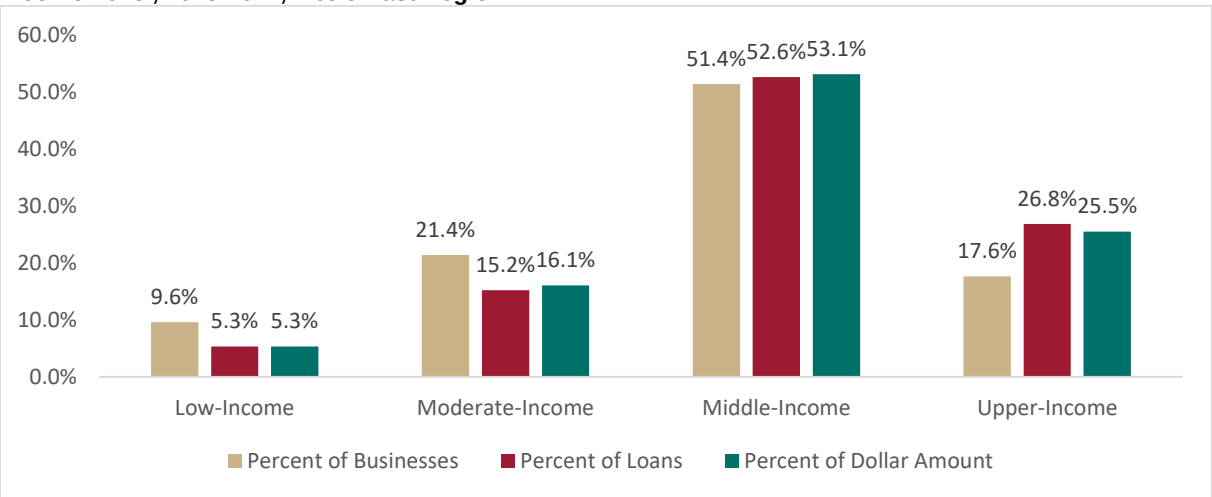


Sources: FFIEC CRA data, 2015-2017; HUD/USPS Vacancy Data, Q1-4, 2015-2017; Author's calculations.

Metro East Region

In the Metro East region, for the period 2015 through 2017, 31 percent of business addresses were located in LMI census tracts, but they received only 20.5 percent of CRA-reported loans under $100,000 and 21.4 percent of the total dollar amount of loans (see Figure 18). If businesses in LMI tracts had received CRA-reported loans under $100,000 in proportion to their share of business addresses overall, they would have received 2,429 more loans over the three-year period, totaling $33.2 million.

Figure 18: Percent of Businesses, Loans, and Dollar Amount for Loans under $100,000 by Census Tract Income Level, 2015-2017, Metro East Region

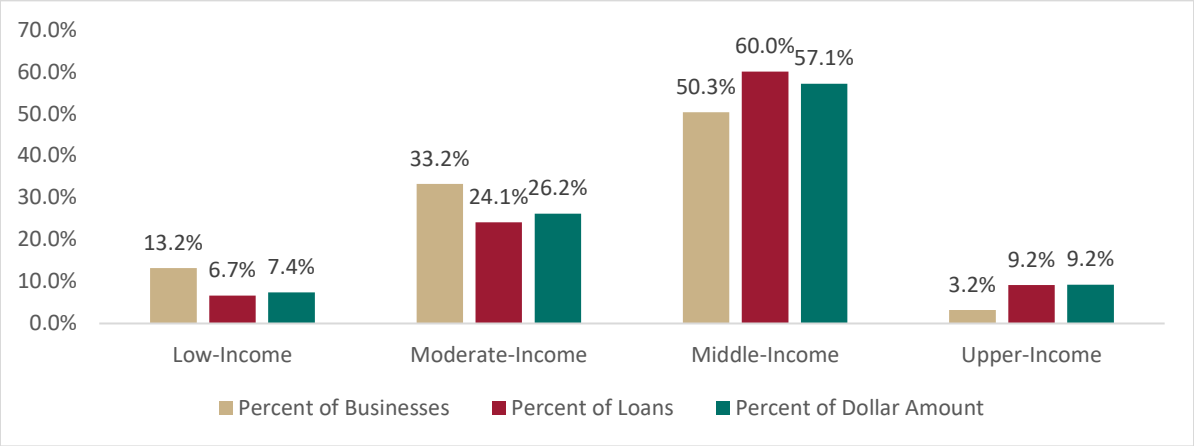


Sources: FFIEC CRA data, 2015-2017; HUD/USPS Vacancy Data, Q1-4, 2015-2017; Author's calculations.

Moline-Rock Island Region

In the Moline-Rock Island region, for the period 2015 through 2017, 46.4 percent of business addresses were located in LMI census tracts, but they received only 30.8 percent of CRA-reported loans under $100,000 and 33.6 percent of the total dollar amount of loans (see Figure 19). If businesses in LMI tracts had received CRA-reported loans under $100,000 in proportion to their share of business addresses overall, they would have received 730 more loans over the three-year period, totaling $7.8 million.

Figure 19: Percent of Businesses, Loans, and Dollar Amount for Loans under $100,000 by Census Tract Income Level, 2015-2017, Moline-Rock Island Region

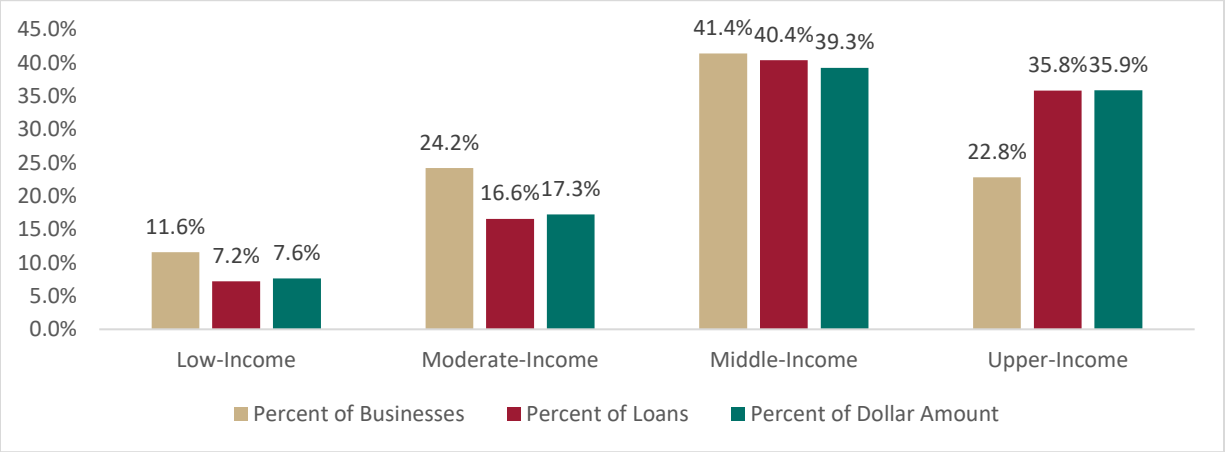


Sources: FFIEC CRA data, 2015-2017; HUD/USPS Vacancy Data, Q1-4, 2015-2017; Author's calculations.

Rockford Region

In the Rockford region, for the period 2015 through 2017, 35.8 percent of business addresses were located in LMI census tracts, but they received only 23.8 percent of CRA-reported loans under $100,000 and 24.9 percent of the total dollar amount of loans (see Figure 20). If businesses in LMI tracts had received CRA-reported loans under $100,000 in proportion to their share of business addresses overall, they would have received 1,237 more loans over the three-year period, totaling $14.2 million.

Figure 20: Percent of Businesses, Loans, and Dollar Amount for Loans under $100,000 by Census Tract Income Level, 2015-2017, Rockford Region

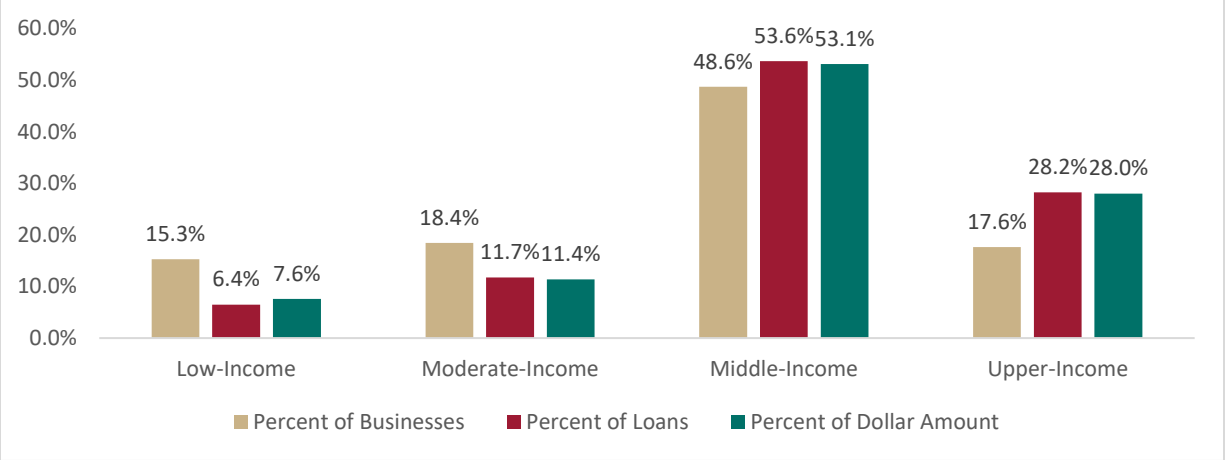


Sources: FFIEC CRA data, 2015-2017; HUD/USPS Vacancy Data, Q1-4, 2015-2017; Author's calculations.

Peoria Region

In the Peoria region, for the period 2015 through 2017, 33.7 percent of business addresses were located in LMI census tracts, but they received only 18.1 percent of CRA-reported loans under $100,000 and 19.0 percent of the total dollar amount of loans (see Figure 21). If businesses in LMI tracts had received loans in proportion to their share of business addresses overall, they would have received 1,850 more loans over the three-year period, totaling $33.6 million.

Figure 21: Percent of Businesses, Loans, and Dollar Amount for Loans under $100,000 by Census Tract Income Level, 2015-2017, Peoria Region



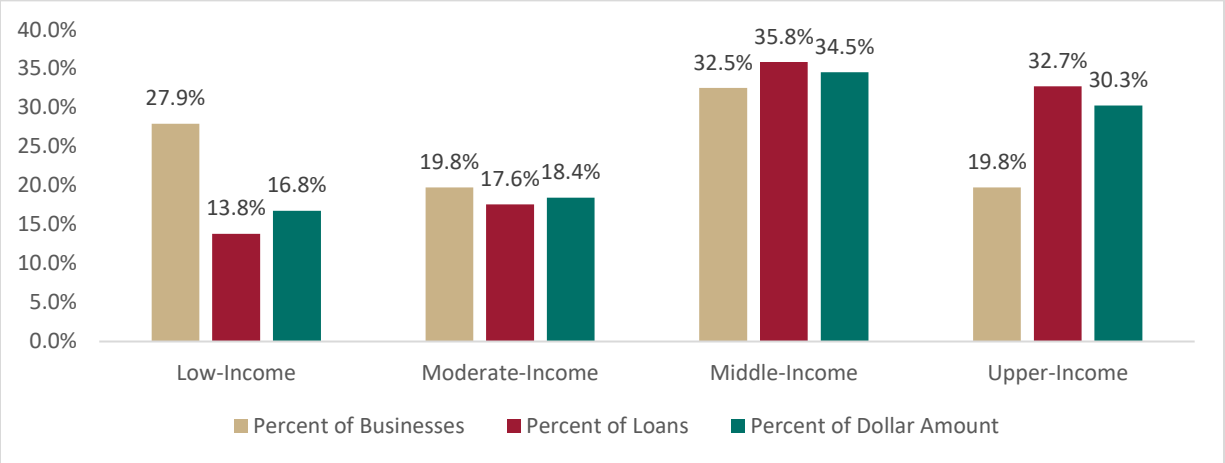
Sources: FFIEC CRA data, 2015-2017; HUD/USPS Vacancy Data, Q1-4, 2015-2017; Author's calculations.

Springfield/Decatur Region

In the Springfield/Decatur region, for the period 2015 through 2017, 47.7 percent of business addresses were located in LMI census tracts, but they received only 31.4 percent of CRA-reported loans under $100,000 and 35.2 percent of the total dollar amount of loans (see Figure 22). If businesses in LMI tracts had received CRA-reported loans under $100,000 in proportion

to their share of business addresses overall, they would have received 1,421 over the three-year period, totaling $16.1 million.

Figure 22: Percent of Businesses, Loans, and Dollar Amount for Loans under $100,000 by Census Tract Income Level, 2015-2017, Springfield/Decatur Region



Sources: FFIEC CRA data, 2015-2017; HUD/USPS Vacancy Data, Q1-4, 2015-2017; Author's calculations.

Regional Comparison

Regions varied considerably both in the proportion of businesses located in LMI census tracts and in the proportion of loans originated in LMI tracts. The smallest 'lending disparity' — defined as the difference between the proportion of businesses in LMI tracts and the number of CRA-reported loans under $100,000 originated in LMI tracts— was observed in the Bloomington region at -4.2 percent (see Table 13), where 21.3 percent of business addresses in the region were located in LMI tracts, and LMI tracts received 17.1 percent of all loans. (Bloomington also had the lowest proportion of businesses located in LMI tracts). The largest lending disparity was observed in the Carbondale region at -16.4 percent, where 49.6 percent of businesses were located in LMI tracts, which is the highest of all the regions included in the report, and LMI tracts received 33.2 percent of all loans—also the highest among the regions included in the report. The Springfield/Decatur region had the second largest lending disparity at 16.3 percent, where 47.7 percent of businesses were located in LMI tracts (the second highest proportion of the nine regions), and they received 31.4 percent of all loans (also the second highest proportion of loans of the nine regions). Regions with larger proportions of businesses in LMI tracts reported higher volumes of lending in LMI tracts, but greater disparities in lending.

Table 13: CRA-Reported Lending in Low- and Moderate-Income Census Tracts, Loans Under $100,000, 2015-2017

	Percent of Businesses in LMI Census Tracts	Percent of Loans Originated in LMI Tracts	Lending Disparity
Bloomington	21.3%	17.1%	-4.2%
Carbondale	49.6%	33.2%	-16.4%
Champaign-Urbana/Danville	37.6%	23.2%	-14.4%
Chicago	24.5%	19.7%	-4.8%
Metro East	31.0%	20.5%	-10.5%
Moline-Rock Island	46.5%	30.8%	-15.7%
Peoria	33.7%	18.2%	-15.6%
Rockford	35.8%	23.8%	-12.0%
Springfield/Decatur	47.7%	31.4%	-16.3%
Illinois	27.0%	19.3%	-7.7%
United States	33.4%	22.4%	-11.0%

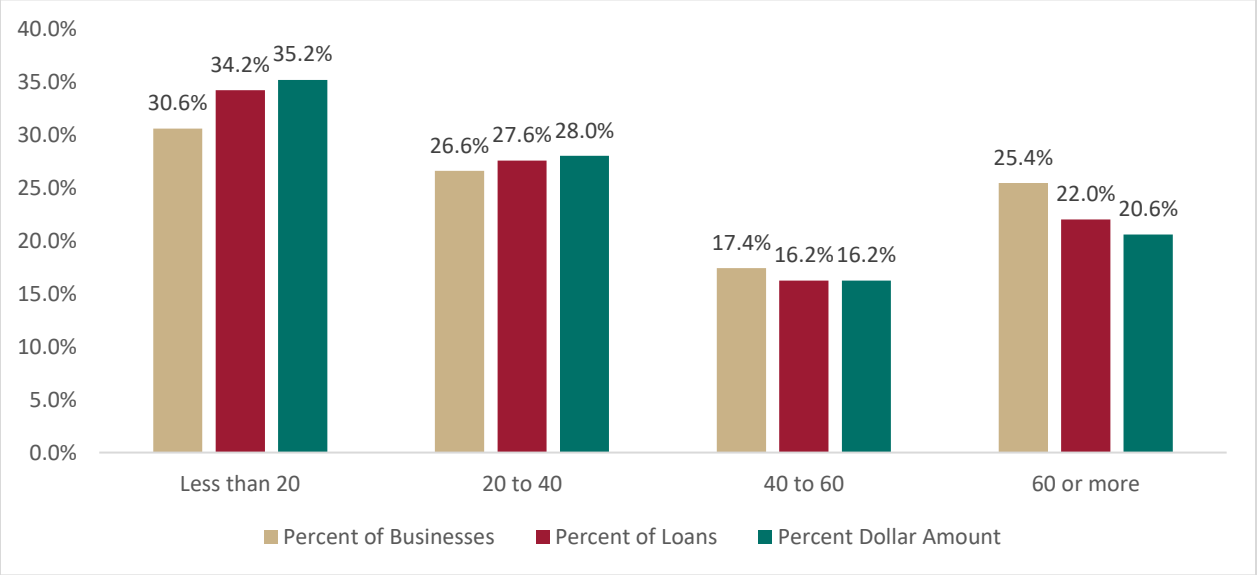
Sources: FFIEC CRA data, 2015-2017; HUD/USPS Vacancy Data, Q1-4, 2015-2017; Author's calculations.

CRA-REPORTED BUSINESS LENDING BY CENSUS TRACT RACIAL AND ETHNIC COMPOSITION

National Trends

Like the previous section, this section of the report focuses on the smaller value CRA-reported loans (loans less than $100,000) most likely to support smaller, local businesses that provide employment and wealth-building opportunities for local residents. Nationally, census tracts with greater proportions of racial and ethnic minorities[48] received proportionally fewer CRA-reported small business loans as compared to census tracts with a higher proportion of white residents. From 2015 to 2017, 30.6 percent of businesses were located in tracts with fewer than 20 percent minority residents (see Figure 23). These tracts, however, received a greater share (34.2 percent) of all CRA-reported loans under $100,000 and 35.2 percent of the total dollar amount of loans. The proportion of lending activity in tracts with 40 to 60 percent racial and ethnic minorities was only slightly below the proportion of businesses located in these tracts (16.2 percent of loans under $100,000 and 16.2 of the total amount of those loans, versus 17.4 percent of businesses). Tracts with 60 percent or more racial and ethnic minorities, however, contained 25.4 percent of businesses but received only 22.0 percent of loans under $100,000 and 20.6 percent of the total dollar amount of loans. If businesses in tracts with 40 percent or larger proportions of racial and ethnic minorities had received CRA-reported loans under $100,000 in proportion to their share of business addresses overall, they would have received 721,348 more loans over the three-year period, totaling $13.6 billion.

Figure 23: Percent of Businesses, Loans, and Dollar Amount for Loans under $100,000 by Census Tract Proportion of Non-White Residents, 2015-2017, Nation



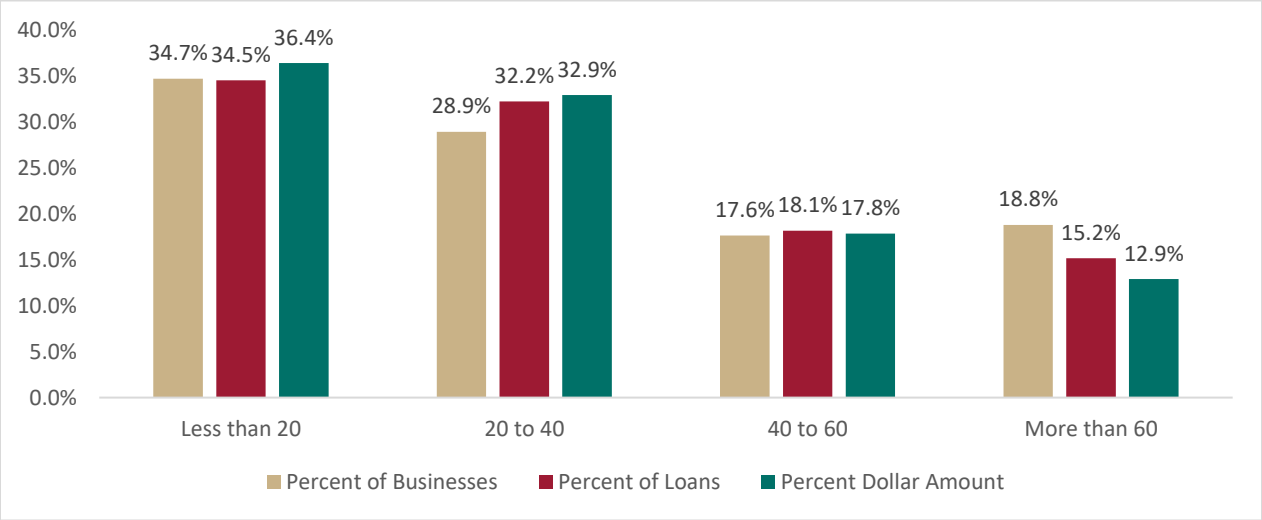
Sources: FFIEC CRA data, 2015-2017; HUD/USPS Vacancy Data, Q1-4, 2015-2017; 2015 Five-Year American Community Survey; Author's calculations.

[48] Racial and ethnic minorities are defined as all individuals who do not identify as white, including Hispanic/Latino peoples of all races.

Illinois Trends

Small business lending disparities also existed at the state level in Illinois. CRA-reported lending activity in tracts with 40 to 60 percent racial and ethnic minorities was fairly proportional to the number of businesses in those tracts. Tracts with 60 percent or larger proportions of racial and ethnic minorities, however, contained 18.8 percent of business addresses but received only 15.2 percent of loans under $100,000 and 12.9 percent of the total dollar amount of loans (see Figure 24). If businesses in tracts with 40 percent or larger proportions of racial and ethnic minorities had received CRA-reported loans under $100,000 in proportion to their share of business addresses overall, they would have received 19,020 more loans over the three-year period, totaling $460.3 million.

Figure 24: Percent of Businesses, Loans, and Dollar Amount for Loans under $100,000 by Census Tract Proportion of Non-White Residents, 2015-2017, Illinois



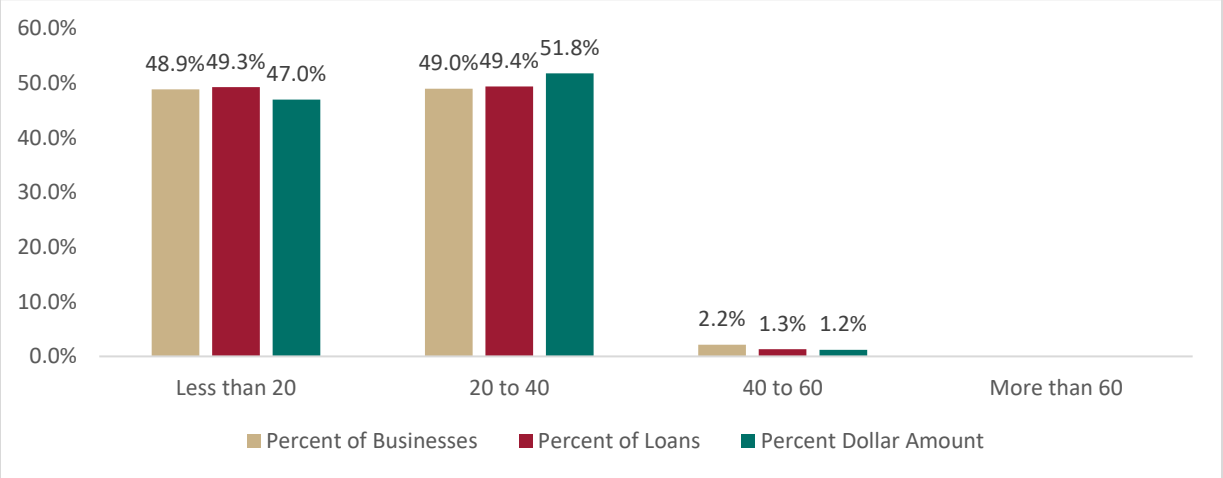
Sources: FFIEC CRA data, 2015-2017; HUD/USPS Vacancy Data, Q1-4, 2015-2017; 2015 Five-Year American Community Survey; Author's calculations.

Regional Trends

Bloomington Region

The Bloomington region did not see the lending disparities observed in other regions. CRA-reported lending by census tract racial and ethnic composition was fairly consistent with the proportion of businesses located in each tract. In that region, 48.9 percent of business addresses were located in tracts with fewer than 20 percent racial and ethnic minorities, and they received 49.3 percent of the total number and 47.0 percent of the total amount of CRA-reported loans under $100,000 (see Figure 25). Tracts with 20 to 40 percent racial and ethnic minorities contained 49.0 percent of business addresses and received 49.4 percent and 51.8 percent of loans. Only 2.2 percent of business addresses were located in tracts with 40 to 60 percent racial and ethnic minorities, and they received 1.3 percent of loans and 1.2 percent of the total amount of loans. If businesses in tracts with 40 percent or larger proportions of racial and ethnic minorities had received CRA-reported loans under $100,000 in proportion to their share of business addresses overall, they would have received 53 more loans over the three-year period, totaling $970,000. It is important to note that only two census tracts (of 46) contained 40 to 60 percent racial and ethnic minorities, and no tracts had a non-white population greater than 60 percent.

Figure 25: Percent of Businesses, Loans, and Dollar Amount for Loans under $100,000 by Census Tract Proportion of Non-White Residents, 2015-2017, Bloomington Region



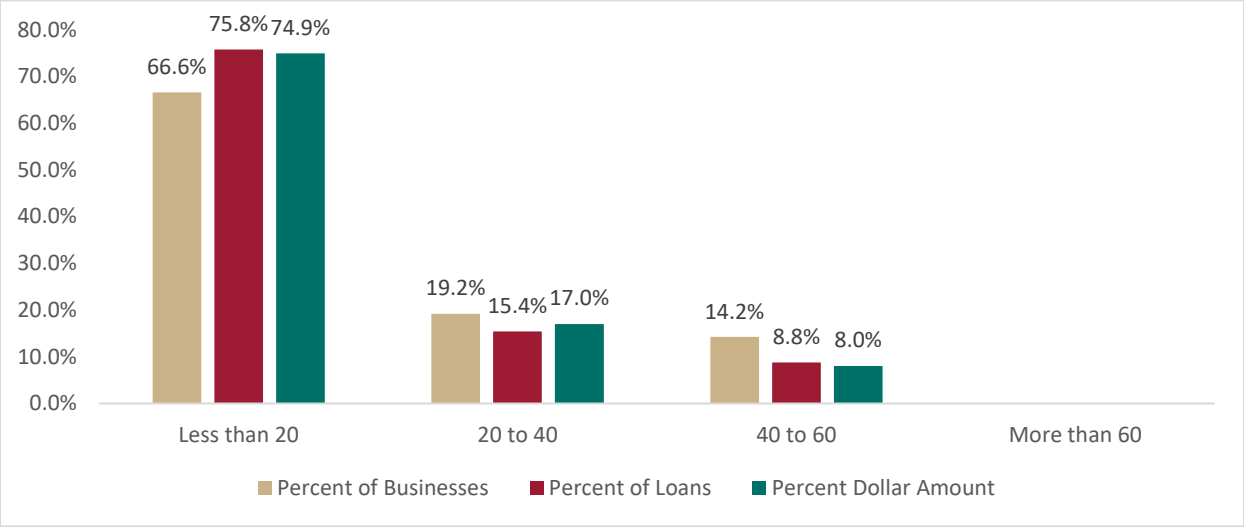
Sources: FFIEC CRA data, 2015-2017; HUD/USPS Vacancy Data, Q1-4, 2015-2017; 2015 Five-Year American Community Survey; Author's calculations.

Carbondale Region

In the Carbondale region, 66.6 percent of business addresses were located in tracts with fewer than 20 percent racial and ethnic minorities, but they received a disproportionately larger share of CRA-reported loans under $100,000 (75.8 percent) and of the total dollar amount of loans (74.9 percent; see Figure 26). Conversely, 14.2 percent of businesses addresses were located in tracts with 40 to 60 percent racial and ethnic minorities, but they received only 8.8 percent of loans and 8.0 percent of the total dollar amount of loans. If businesses in tracts with 40 percent or larger proportions of racial and ethnic minorities had received CRA-reported loans under $100,000 in proportion to their share of business addresses overall, they would have received

211 more loans over the three-year period, totaling $3.4 million. Note that there were no census tracts in the Carbondale region with a non-white population greater than 60 percent.

Figure 26: Percent of Businesses, Loans, and Dollar Amount for Loans under $100,000 by Census Tract Proportion of Non-White Residents, 2015-2017, Carbondale Region

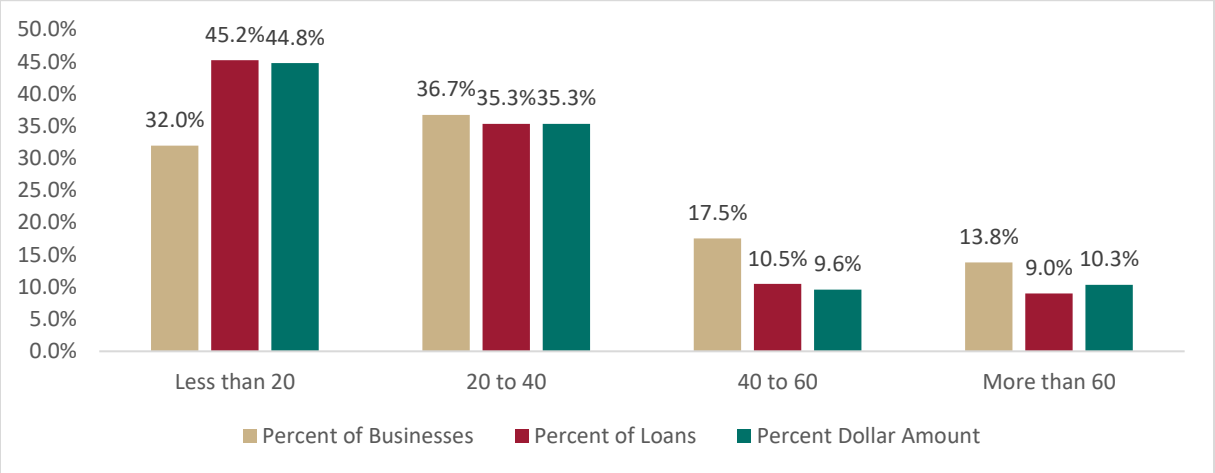


Sources: FFIEC CRA data, 2015-2017; HUD/USPS Vacancy Data, Q1-4, 2015-2017; 2015 Five-Year American Community Survey; Author's calculations.

Champaign-Urbana/Danville Region

Geographic lending disparities by tract racial and ethnic composition were evident in the Champaign-Urbana/Danville region. Census tracts with fewer than 20 percent racial and ethnic minorities contained only 32 percent of business addresses but received 45.2 percent of CRA-reported loans under $100,000 and 44.8 percent of the total dollar amount of those loans (see Figure 27). Conversely, tracts with 40 percent or more racial and ethnic minorities contained 31.3 percent of business addresses but received only 19.5 percent of loans and 19.9 percent of the total amount of loans. If businesses in tracts with 40 percent or larger proportions of racial and ethnic minorities had received CRA-reported loans under $100,000 in proportion to their share of business addresses overall, they would have received 1,023 more loans over the three-year period, totaling $15.5 million.

Figure 27: Percent of Businesses, Loans, and Dollar Amount for Loans under $100,000 by Census Tract Proportion of Non-White Residents, 2015-2017, Champaign-Urbana/Danville Region

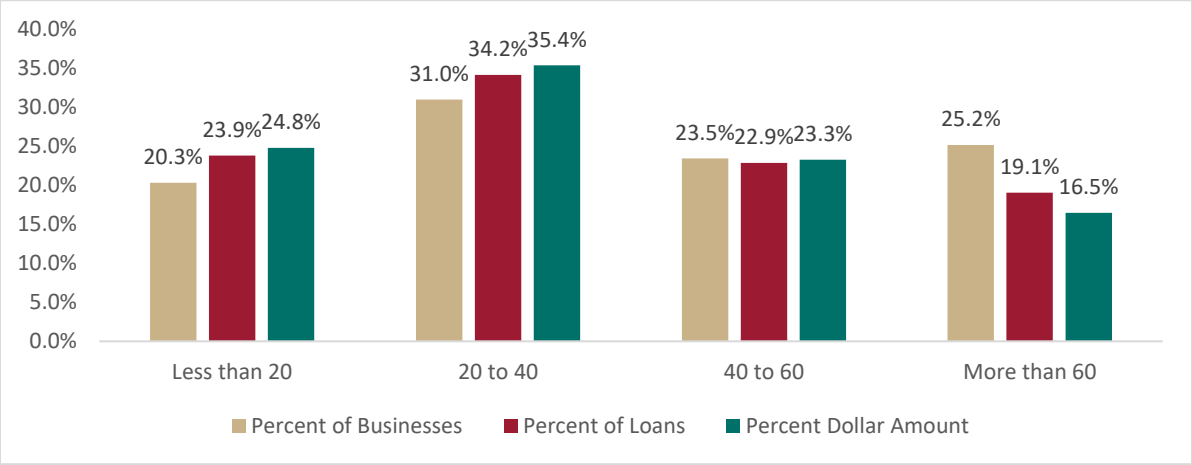


Sources: FFIEC CRA data, 2015-2017; HUD/USPS Vacancy Data, Q1-4, 2015-2017; 2015 Five-Year American Community Survey; Author's calculations.

Chicago Region

Chicago is the state's most diverse region; yet, geographic patterns in lending illustrate racial and ethnic disparities. In the Chicago region, tracts with lower proportions of minority residents received a disproportionally greater share of loans than their counterparts. For example, 20.3 percent of business addresses were located in tracts with fewer than 20 percent racial and ethnic minorities, but they received 23.9 percent of CRA-reported loans under $100,000 and 24.8 of the total dollar amount of loans (see Figure 28). Similarly, 31.0 percent of business addresses were located in tracts with 20 to 40 percent racial and ethnic minorities, but they received 34.2 percent of loans and 35.4 percent of the total dollar amount of loans. Lending was fairly evenly distributed to tracts with 40 to 60 percent racial and ethnic minorities, but tracts with greater than 60 percent racial and ethnic minorities experienced shortfalls. Those tracts contained 25.2 percent of businesses, but received only 19.1 percent of loans and 16.5 percent of the total value of loans. If businesses in tracts with 40 percent or larger proportions of racial and ethnic minorities had received CRA-reported loans under $100,000 in proportion to their share of business addresses overall, they would have received 28,010 more loans over the three-year period, totaling $354.9 million.

Figure 28: Percent of Businesses, Loans, and Dollar Amount for Loans under $100,000 by Census Tract Proportion of Non-White Residents, 2015-2017, Chicago Region

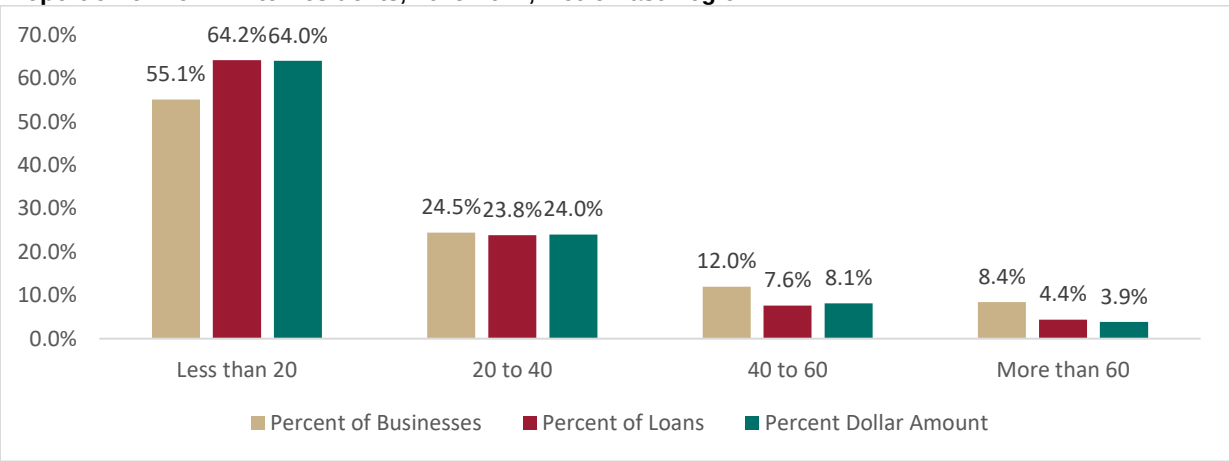


Sources: FFIEC CRA data, 2015-2017; HUD/USPS Vacancy Data, Q1-4, 2015-2017; 2015 Five-Year American Community Survey; Author's calculations.

Metro East Region

Geographic lending disparities by tract racial and ethnic composition were evident in the Metro East region. In the Metro East region, 55.1 percent of business addresses were located in tracts with fewer than 20 percent racial and ethnic minorities, but they received a greater share (64.2 percent) of CRA-reported loans under $100,000 and of the total dollar amount of those loans (64.0 percent; see Figure 29). Conversely, tracts with greater than 40 percent racial and ethnic minorities contained 20.4 percent of business addresses but received only 12.0 percent of loans and 12.0 percent of the amount of loans. If businesses in tracts with 40 percent or larger proportions of racial and ethnic minorities had received CRA-reported loans under $100,000 in proportion to their share of business addresses overall, they would have received 1,969 more loans over the three-year period, totaling $29.4 million.

Figure 29: Percent of Businesses, Loans, and Dollar Amount for Loans under $100,000 by Census Tract Proportion of Non-White Residents, 2015-2017, Metro East Region

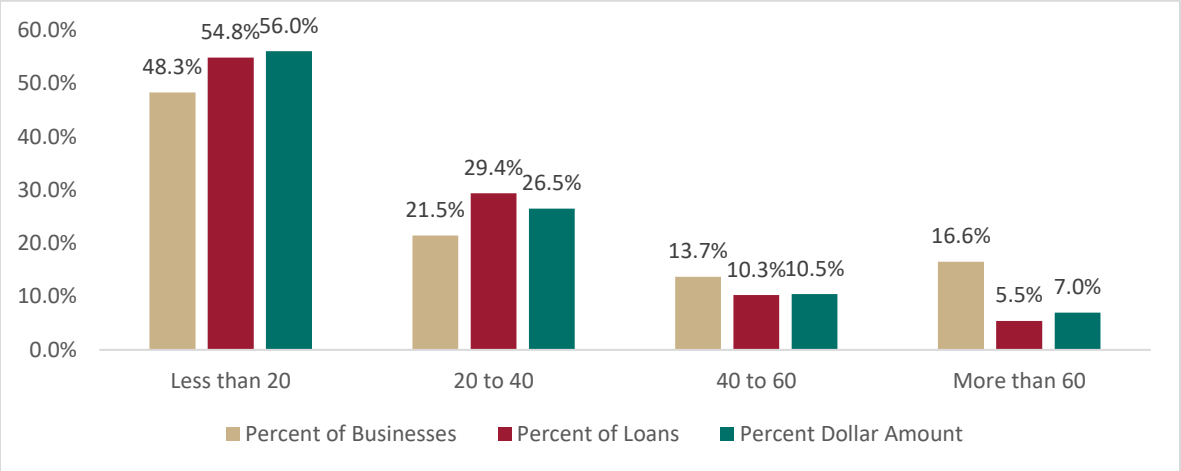


Sources: FFIEC CRA data, 2015-2017; HUD/USPS Vacancy Data, Q1-4, 2015-2017; 2015 Five-Year American Community Survey; Author's calculations.

Moline-Rock Island Region

Geographic lending disparities by tract racial/ethnic composition were evident in the Moline-Rock Island region. Tracts with less than 20 percent racial and ethnic minorities contained 48.3 percent of business addresses but received 54.8 percent of CRA-reported loans under $100,000 and 56.0 percent of the total dollar amount of loans (see Figure 30). Similarly, tracts with 20 to 40 percent racial and ethnic minorities contained 21.5 percent of business addresses but received 29.4 percent of loans and 26.5 percent of the total dollar amount of loans. Conversely, tracts with 40 to 60 percent racial and ethnic minorities contained 13.7 percent of business addresses but received 10.3 percent of loans and 10.5 percent of the total dollar amount of loans. Tracts with more than 60 percent racial and ethnic minorities contained 16.6 percent of all business addresses but received only 5.5 percent of loans and 7.0 percent of the total dollar amount of loans. If businesses in tracts with 40 percent or larger proportions of racial and ethnic minorities had received CRA-reported loans under $100,000 in proportion to their share of business addresses overall, they would have received 677 more loans over the three-year period, totaling $8.9 million.

Figure 30: Percent of Businesses, Loans, and Dollar Amount for Loans under $100,000 by Census Tract Proportion of Non-White Residents, 2015-2017, Moline-Rock Island Region



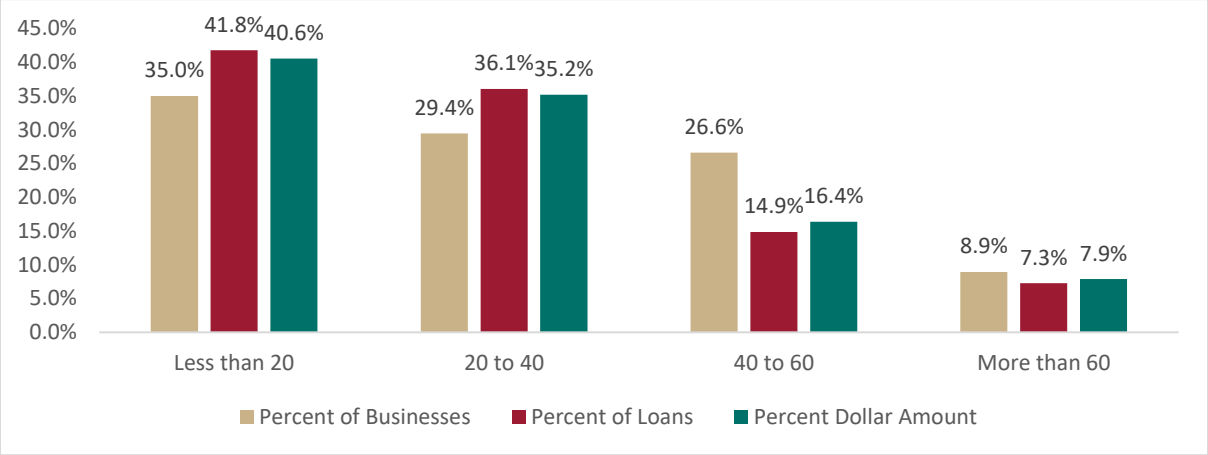
Sources: FFIEC CRA data, 2015-2017; HUD/USPS Vacancy Data, Q1-4, 2015-2017; 2015 Five-Year American Community Survey; Author's calculations.

Rockford Region

Disparities in lending were observed in the Rockford region. Thirty-five percent of business addresses were located in tracts with fewer than 20 percent racial and ethnic minorities, but they received a greater share (41.8 percent) of CRA-reported loans under $100,000 and of the total dollar amount of those loans (40.6 percent; see Figure 31). Similarly, tracts with 20 to 40 percent racial and ethnic minorities contained 29.4 percent of business addresses but received 36.1 percent of loans and 35.2 percent of the total dollar amount of loans. In contrast, tracts with 40 to 60 percent racial and ethnic minorities contained 26.6 percent of businesses but received only 14.9 percent of loans and 16.4 percent of the total dollar amount of loans. Similarly, 8.9 percent of business addresses were located in tracts with more than 60 percent racial and ethnic minorities, but they received 7.3 percent of loans and 7.9 percent of the total dollar amount of loans. If businesses in tracts with 40 percent or larger proportions of racial and ethnic minorities

had received CRA-reported loans under $100,000 in proportion to their share of business addresses overall, they would have received 1,399 more loans over the three-year period, totaling $17.6 million.

Figure 31: Percent of Businesses, Loans, and Dollar Amount for Loans under $100,000 by Census Tract Proportion of Non-White Residents, 2015-2017, Rockford Region

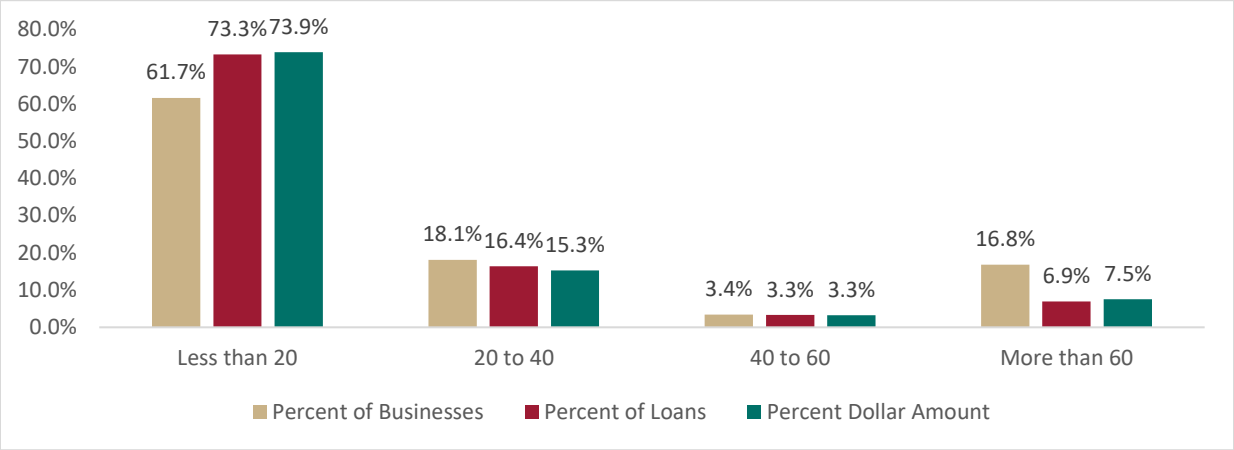


Sources: FFIEC CRA data, 2015-2017; HUD/USPS Vacancy Data, Q1-4, 2015-2017; 2015 Five-Year American Community Survey; Author's calculations.

Peoria Region

Lending disparities were observed in the Peoria region. In this region, 61.7 percent of business addresses were located in tracts with fewer than 20 percent racial and ethnic minorities, but they received a larger share (73.3 percent) of CRA-reported loans under $100,000 and of the total dollar amount of those loans (73.9 percent; see Figure 32). In contrast, 16.8 percent of business addresses were located in tracts with more than 60 percent racial and ethnic minorities but received only 6.9 percent of loans and 7.5 percent of the total amount of loans. That is less than half their proportional share. If businesses in tracts with 40 percent or larger proportions of racial and ethnic minorities had received CRA-reported loans under $100,000 in proportion to their share of business addresses overall, they would have received 1,192 more loans over the three-year period, totaling $22.8 million.

Figure 32: Percent of Businesses, Loans, and Dollar Amount for Loans under $100,000 by Census Tract Proportion of Non-White Residents, 2015-2017, Peoria Region

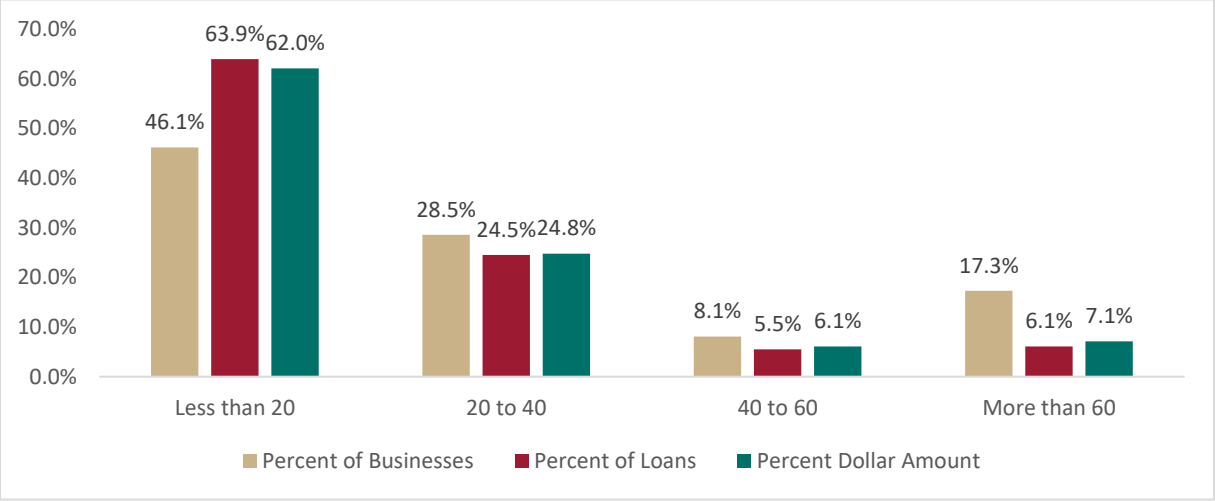


Sources: FFIEC CRA data, 2015-2017; HUD/USPS Vacancy Data, Q1-4, 2015-2017; 2015 Five-Year American Community Survey; Author's calculations.

Springfield/Decatur Region

Geographic lending disparities were evident in the Springfield/Decatur region. In this region, 46.1 percent of businesses were located in tracts with fewer than 20 percent racial and ethnic minorities, yet they received a larger share of CRA-reported loans under $100,000 (63.9 percent) and of the total dollar amount of loans (62 percent; see Figure 33). In contrast, tracts with greater than 60 percent racial and ethnic minorities contained 17.3 percent of all business addresses but received only 6.1 percent of all loans and 7.1 percent of the total amount of those loans. If businesses in tracts with 40 percent or larger proportions of racial and ethnic minorities had received CRA-reported loans under $100,000 in proportion to their share of business addresses overall, they would have received 1,218 more loans over the three-year period, totaling $18.1 million.

Figure 33: Percent of Businesses, Loans, and Dollar Amount for Loans under $100,000 by Census Tract Proportion of Non-White Residents, 2015-2017, Springfield/Decatur Region



Sources: FFIEC CRA data, 2015-2017; HUD/USPS Vacancy Data, Q1-4, 2015-2017; 2015 Five-Year American Community Survey; Author's calculations.

Regional Comparison

The racial and ethnic composition of census tracts varied throughout Illinois. Some regions (e.g., Chicago) are more diverse, while others are less so. Some regions have larger proportions of majority-minority tracts, while other regions have smaller proportions of such tracts. While business address distribution and levels of disparities in small business lending varied across tracts, small business lending disparities were observed in all nine regions.

The biggest lending disparity was observed in the Moline-Rock Island region. While 30.3 percent of businesses were located in tracts containing more than 40 percent racial and ethnic minorities, those tracts received roughly half (15.8 percent) of their proportional share of loans (see Table 14). The smallest disparity in lending was observed in the Bloomington region (a shortfall of only 0.8 percent), where there were few census tracts with populations of racial and ethnic minorities exceeding 40 percent.

Table 14: CRA-Reported Lending in Census Tracts with Non-White Populations Greater than 40 Percent, Loans Under $100,000, 2015-2017

	Percent of Businesses in Tracts with > 40% Non-White Population	Percent of Loans Originated in Tracts with > 40% Non-White Population	Lending Disparity
Bloomington	2.2%	1.3%	-0.8%
Carbondale	14.2%	8.8%	-5.4%
Champaign-Urbana/Danville	31.3%	19.4%	-11.9%
Chicago	48.7%	42.0%	-6.7%
Metro East	20.4%	12.0%	-8.5%
Moline-Rock Island	30.3%	15.8%	-14.5%
Peoria	20.2%	10.2%	-10.0%
Rockford	35.6%	22.1%	-13.4%
Springfield/Decatur	25.3%	11.6%	-13.8%
Illinois	36.4%	33.3%	-3.1%
United States	42.9%	38.2%	-4.7%

Sources: FFIEC CRA data, 2015-2017; HUD/USPS Vacancy Data, Q1-4, 2015-2017; 2015 Five-Year American Community Survey; Author's calculations.

POLICY IMPLICATIONS & RECOMMENDATIONS

Policy Implications

The consistency of the findings across the regions examined in this report suggests that CRA-reporting financial institutions are not doing a good job of meeting the credit needs of businesses in lower-income neighborhoods and communities of color. Businesses need access to capital to survive and grow, and the success of local businesses is essential for the health of neighborhoods.[49] The lack of access to loans in LMI communities and communities of color from larger financial institutions that report under the CRA has at least three potentially damaging impacts on businesses in those neighborhoods, with negative spillover effects on residents. First, without access to capital, businesses are less able to expand, retain their existing workforce,[50] or hire additional workers, thereby reducing the level of services and economic opportunity in neighborhoods. Second, without credit, businesses are less able to finance inventory and manage cash flow, making them more likely to fail than businesses that have that basic financial tool available. Third, business owners needing loans may have to use alternative lenders, which provide high-cost loans with interest rates as high as 367 percent.[51]

The extraordinarily rapid expansion of fintech and other alternative lenders, which increased over 1,700 percent in number and about 630 percent in the total dollar amount of loans between 2010 and 2014 according to one study,[52] suggests that non-bank lenders are filling the vacuum left by mainstream financial institutions. The reliance on alternative lenders may be even greater for entrepreneurs from lower-income neighborhoods than for those from higher-income neighborhoods because entrepreneurs from lower-income neighborhoods are less likely to be able to get loans from banks or to have significant equity in personal assets, such as a house or personal credit cards with high available credit limits, to use as a substitute for business loans.[53] Personal funds are the primary source of capital for one in five small employer firms.[54] The high cost of alternative loans drains capital from the business, reduces growth, and can lead to the same cycle of debt that consumers can be trapped in with payday loans.

The findings are particularly troublesome in an environment of increased deregulation of the financial services sector. The CRA is the biggest incentive for banks to invest in LMI census tracts within their service areas. Reducing regulatory incentives for banks to lend and invest in LMI areas would exacerbate the problems that businesses in lower-income and predominantly minority areas have getting loans from banks, leading to even greater reliance on the largely unregulated, sometimes predatory, non-bank fintech and alternative business lenders. The existing data on the products and practices of fintech lenders point to some of the perils that small businesses in a less regulated financial services environment could face.

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[49] Raphael W. Bostic and Hyojung Lee, "Small Business Lending Under the Community Reinvestment Act," *Cityscape: A Journal of Policy Development and Research* 19, no. 2 (2017): 63-84, https://www.huduser.gov/portal/periodicals/cityscpe/vol19num2/ch6.pdf.
[50] National Small Business Association, *2016 Year-End Economic Report,* accessed May 9, 2017, http://www.nsba.biz/wp-content/uploads/2017/02/Year-End-Economic-Report-2016.pdf.
[51] Woodstock Institute's analysis of 15 alternative loans showed effective annual interest rates from 26.3 percent to 367.7 percent. All of the loans analyzed with repayment periods of less than nine months had effective annual interest rates of over 100 percent.
[52] State of California Business, Consumer Services and Housing Agency, *California Online Lending Grows.*
[53] Alicia Robb, *Access to Capital among Young Firms, Minority-owned Firms, Women-owned Firms, and High-tech Firms,* Small Business Administration, Office of Advocacy, April 2013, accessed December 13, 2016, https://www.sba.gov/sites/default/files/files/rs403tot(2).pdf.; Robert W. Fairlie and Alicia Robb, *Race and Entrepreneurial Success: Black-, Asian-, and White-Owned Businesses in the United States* (MIT Press, 2010).
[54] Federal Reserve System, *2017 Small Business Credit Survey.*

Recommendations for Policymakers

● **Investigate potential discrimination.** The lending disparities revealed in this report and other research on business lending establish a clear and urgent need for further investigation to determine whether business lenders are complying with the Equal Credit Opportunity Act (ECOA) and providing credit on a non-discriminatory basis to applicants. This report and our *Patterns of Disparity* series of reports published in 2017 consistently show disparities in lending to businesses in LMI communities and communities of color. Other research on business lending[55] also found that businesses in census tracts with higher percentages of minority residents or with minority owners are less likely to receive business loans than businesses in census tracts with lower percentages of minority residents or with white owners. Over 90 percent of small business organizations responding to a survey by the California Reinvestment Coalition reported that discrimination against small businesses owned by women, people of color, or other protected groups occurred "often" (57.1 percent) or "sometimes" (33.3 percent).[56]

The Consumer Financial Protection Bureau (CFPB) and the Department of Justice (DOJ) have the responsibility to investigate the causes of the disparities revealed in this and other reports. One possible cause is intentional discrimination by the lenders, a violation of ECOA, which applies to business lending by both banks and non-banks. Sadly, racial and economic lending disparities are the norm, not the exception.

Fair lending concerns are not limited to banks. Congressman Emanuel Cleaver in 2017 launched an investigation into non-bank fintech lending to small businesses. The Cleaver investigation focused particularly on algorithms used by some lenders to determine whether to approve or deny loan applications. Such algorithms could, by design or effect, discriminate against applicants of color, among others. The investigation's three key findings were:

1. Fintech loans are more likely to be used by minority-owned companies,
2. More action is needed in order to limit unfair business lending practices, and
3. Some lenders have implemented practices that should be widely adopted.[57]

One best practice aimed at addressing lending discrimination includes third-party fair lending audits to determine whether there are statistically significant markups in interest rates on loans that result in the lender charging high interest rates on loans to borrowers of color. The findings of the Cleaver investigation suggest the need for further investigation to determine whether non-bank fintech business lenders are complying with ECOA and providing credit on a non-discriminatory basis to applicants. If further analysis shows violations, both the CFPB and DOJ should act to remedy those violations.

[55] Bates and Robb, "Impacts."
[56] Stein and Charusombat, *Displacement.*
[57] Office of Congressman Emanuel Cleaver, II, *Fintech Investigative Report*, August 2018, https://cleaver.house.gov/sites/cleaver.house.gov/files/Fintech_Report_1.pdf.

"[Securing capital] feels kind of like chasing your own tail."
-Stanley Webb

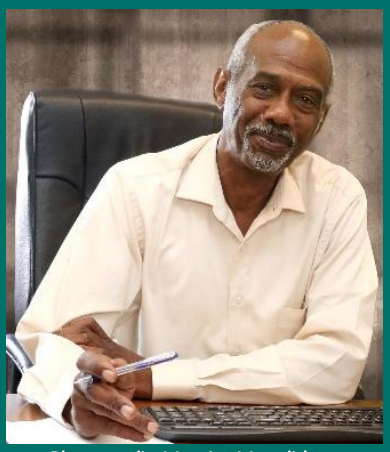

Photo credit: Maurice Meredith

Stanley Webb – Webb Engineering Services, Inc.

Webb Engineering Services, Inc. has provided electrical, mechanical, and civil engineering design services to the St. Louis area for the past 20 years, and more recently to Champaign, Illinois. The company's president, Stanley Webb, founded the business with less than $2,000 of his own savings. Today, Webb Engineering boasts a wide array of clients, and works on everything from healthcare to education to commercial projects.

Despite this success, Stanley still finds it very challenging as a small business owner to secure bank loans. Lack of bank lending opportunities pushed Stanley to explore alternative financing options, such as online non-bank lending. However, extremely high interest rates, weekly repayment terms, and aggressive unsolicited communications from these online lenders ultimately deterred him from pursuing these options further.

What could Webb Engineering do with more capital?
Stanley feels that the struggle to obtain capital has hindered his ability to quickly grow his business. "It feels kind of like chasing your own tail," Stanley said. With more capital, he could hire more workers and increase his revenue.

- **Require all small business lenders (bank and non-bank) to report race and gender of loan applicants and other relevant data.** The CFPB should make rule-making for small business data collection a top priority. Currently available small business loan data are so inadequate and inconsistent that they cannot reliably be used to support evidence-based policymaking or advocacy to promote economic development or assess potential fair lending issues in the market.[58] In response to a Request for Information from the CFPB in 2017, Woodstock, along with our partners California Reinvestment Coalition, Main Street Alliance, and People's Action, submitted a comment discussing each of the mandated data points— gross revenue of applicant business, the loan amount requested, the type of loan requested (e.g., term loan, credit card, or merchant cash advance), the action taken on the application, the amount loaned, and race and gender of the applicant— and recommending that the Section 1071 rules require lenders to report data such as the cost of the loan, the reason(s) for a denial, and any credit scores collected by the lender.[59] The data reporting to CFPB under Section 1071 should be in addition to any reporting to the prudential regulators by fintech lenders operating under a federal charter.

The CRA requires only lenders with assets of over approximately $1 billion to report small loans to businesses. While CRA-reporting lenders do make the majority of business loans, non-reporting institutions still make about a third of all loans by dollar volume.[60] The Section 1071 rules would supplement the available data by requiring smaller lenders to report small loans to businesses. Making the Section 1071 data publicly available in the same way that CRA data is publicly available would allow a more comprehensive analysis of how financial institutions are meeting the credit needs of businesses in LMI neighborhoods and communities of color.

[58] Consumer Financial Protection Bureau, *Key Dimensions of the Small Business Lending Landscape*, May 2017, https://files.consumerfinance.gov/f/documents/201705_cfpb_Key-Dimensions-Small-Business-Lending-Landscape.pdf.
[59] Woodstock Institute, California Reinvestment Coalition, Main Street Alliance, and People's Action, *Comment in response to the Consumer Financial Protection Bureau's request for information (RFI) regarding the small business lending market,* September 14, 2017, https://woodstockinst.org/wp-content/uploads/2018/03/SB-Collaborative-Response-to-CFPB-RFI-re-1071.pdf.
[60] Small Business Majority, *Unique Opportunities.*

Requiring financial institutions to report a comprehensive set of data points would allow for a more precise estimate of how well, or poorly, the financial institutions are meeting the goals of the CRA, which is to meet the credit needs of the community. Currently, CRA business lending reports cover only loans that are actually originated, but do not include business loan applications that did not lead to a loan origination. The data, therefore, do not show how many businesses sought credit, but were denied. Nor does the CRA dataset include the amount of the loan applied for, which shows the level of demand for capital. The CRA data aggregate loans originated into three categories: less than or equal to $100,000; greater than $100,000 to $250,000; and greater than $250,000 to $1,000,000. Lenders do not report the actual amount of the loan, which would allow analysis of the difference between the level of demand and the dollar amount of loans originated. Including these additional data fields under Section 1071 rules will show the level of demand and how well lenders are meeting the demand.

The requirement for the CFPB to develop small business data collection rules took effect, pursuant to the Dodd-Frank Act, in 2010. We recognize the complexity involved in crafting these rules and the importance of developing rules that achieve their intended purpose without unduly burdening or confusing small business lenders. The issues at stake, however—racial and gender discrimination against small business owners seeking credit—are so important that the agency should make these rules a top priority. In the CFPB's official spring 2018 agenda, the Section 1071 rulemaking was included in the list of current rulemakings, with an estimated March 2019 date for pre-rule activities. The official fall 2018 agenda, however, reclassified the Section 1071 rulemaking as a long-term action item. After various groups, including Woodstock, protested this move, the CFPB put the Section 1071 rules back on the official regulatory agenda with January 2020 as the date for pre-rule activity. Adding to the pressure on the CFPB to move with urgency toward developing the Section 1071 rules, Democracy Forward, on behalf of California Reinvestment Coalition, filed a federal lawsuit against the CFPB in May 2019, alleging that the CFPB's failure to implement Section 1071 is harming small businesses.[61]

- **Support and increase funding for government programs that support lending to underserved communities.** CDFIs are financial institutions with a mission to serve communities that are traditionally distressed or underserved by mainstream financial institutions. The New Markets Tax Credit (NMTC) provides private-sector investors a credit against federal income taxes for investments in Community Development Enterprises (CDEs), corporations with a primary mission to serve or provide investment capital in low-income communities.[62] Both CDFIs and CDEs are important sources of business capital in lower-income neighborhoods and communities of color, but they can serve only a small fraction of the need. Community organizations and advocates need to work to support increased funding for CDFIs and the NMTC Program to enable CDFIs and CDEs to expand the level of investment they bring to their service areas. White House budget proposals have proposed cutting the CDFI Fund, which is the Treasury Department source for funds to support CDFIs.

[61] California Reinvestment Coalition v. Kathleen L. Kraninger, (N.D. Cal. 2019), https://democracyforward.org/wp-content/uploads/2019/05/2019-05-14-Complaint-for-Declatory-and-Injunctive-Relief-No.-19-cv-02572.pdf.
[62] For more information about CDFIs and the NMTC program, see https://www.cdfifund.gov/programs-training/Programs/new-markets-tax-credit/Pages/default.aspx.

Racial and economic disparities in small business lending are exacerbated by a criminal justice system that has long disproportionately and unjustly targeted and punished poor people of color. Returning citizens face a variety of barriers to financial security. Barriers to employment, for example, are common. Entrepreneurship presents the chance for returning citizens to circumvent those barriers, but a criminal record makes it more difficult to obtain access to capital. U.S. Senator Ben Cardin (D-Maryland) recently introduced legislation to create a program within the SBA to award grants to organizations that provide business counseling and entrepreneurial development training to returning citizens.[63] Programs such as these are a win-win. They help put a returning citizen on the path toward financial security, and they foster small business development, which benefits the community.

The Unlocking Opportunities for Emerging Markets Act, which was introduced in July 2019, would establish the Office of Emerging Markets (OEM) within the Small Business Administration's (SBA) Office of Capital Access. Congress should pass this legislation, which would allow the SBA to coordinate its efforts to develop policies and implement strategies that specifically address the capital needs and goals of entrepreneurs in underserved and emerging markets and to review the effectiveness of these access to capital initiatives.

The Tax Cuts and Jobs Act signed into law in 2017 created the Opportunity Zones program aimed at spurring investment in distressed communities. The program provides tax benefits for investing unrealized capital gains in designated Opportunity Zones.[64] Opportunity Zones are a collection of over 8,700 census tracts nominated by the governors of the 50 states, four territories, and the Mayor of Washington, D.C. and officially designated by the U.S. Department of the Treasury. The statute contains no provision to change which communities are classified as Opportunity Zones.[65] Indeed, not all Opportunity Zones are created equal. From a business perspective, certain areas are more attractive than others, and the same communities that are passed over by developers currently may find themselves passed over again. Houston, for example, boasts as having two of the nation's most attractive Opportunity Zones.[66] Any individual or corporation can participate and invest in Opportunity Funds (the investment vehicle that invests in Opportunity Zones).

Opportunity Zones have the potential to improve access to capital for entrepreneurs and small business owners located within Opportunity Zones, but the degree to which Opportunity Zone investments will be used to provide small business access to capital is unknown. Aside from the exclusion of a handful of 'sin' industries, there are no specifications or restrictions as to which activities Opportunity Investments must fund. As the Brookings Institution notes, "The decision to subsidize Opportunity Zones through an exclusion of capital gains from tax is an unusual choice for spurring investment in distressed areas, and makes the program hard to monitor and difficult to enforce."[67] Currently, there are no reporting requirements associated with

[63] Stephen Babcock, "Sen. Ben Cardin just proposed legislation to help returning citizens start businesses," *Technically Baltimore,* April 10, 2019, https://technical.ly/baltimore/2019/04/10/sen-ben-cardin-proposed-legislation-to-help-returning-citizens-start-businesses/.
[64] "Opportunity Zones Frequently Asked Questions," Internal Revenue Service, https://www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions.
[65] "What are Opportunity Zones and How Do They Work?," Tax Policy Center, https://www.taxpolicycenter.org/briefing-book/what-are-opportunity-zones-and-how-do-they-work.
[66] R.A. Schuetz, "Houston's Opportunity Zones Among Nation's Most Appealing for Investors," *Chron,* April 4, 2019, https://www.chron.com/business/real-estate/article/Houston-s-Opportunity-Zones-already-changing-are-13742068.php.
[67] Hilary Gelfond and Adam Looney, *Learning from Opportunity Zones: How to Improve Place-Based Policies,* The Brookings Institution, October 2018, https://www.brookings.edu/wp-content/uploads/2018/10/Looney_Opportunity-Zones_final.pdf.

Opportunity Zones, which results in a lack of transparency in how the program operates and its impact. Absent additional rules and oversight, Opportunity Funds will self-certify their eligibility for the tax incentives but provide little other information on their activities.[68] The U.S. Department of the Treasury and the Internal Revenue Service should implement robust reporting requirements for investments in Opportunity Zones to ensure that capital is flowing to areas and projects with the greatest need.[69] In lieu of that, Congress should pass and the President should sign bi-partisan legislation introduced in May 2019 that would require the Treasury to collect data on the impact Opportunity Funds are having on underserved communities and report that data to Congress on an annual basis. Absent a reporting mandate, Opportunity Fund managers should adopt the voluntary reporting framework established by the U.S. Impact Investing Alliance and the Beeck Center at Georgetown University.[70] Adopting this framework, "will enable fund managers and their investors to understand the impact of investors and enable independent evaluators and researchers to more deeply analyze the long-term outcomes of the overall policy."[71]

- **Support programs to expand access to small business loans for rural entrepreneurs.**

Several of the regions examined in this report contain smaller cities and more rural areas than the Chicago and Metro East regions. Lending patterns in many of the more rural regions not only reflect the same income and racial disparities in lending found in their larger, more urban counterparts, but additionally show lower levels of CRA-reported lending overall and slower post-Recession recovery. Entrepreneurism can help to stem population loss in rural areas. The importance of small businesses to rural economies and the unique challenges faced by rural entrepreneurs warrant tailored solutions. While the U.S. Department of Agriculture (USDA) provides several funding options for rural small businesses, the 2018 Farm Bill discontinued direct mandatory funding for a major stimulus program for rural small businesses: the Rural Microentrepreneur Assistance Program (RMAP). RMAP provides loan capital and technical assistance funding to Microenterprise Development Organizations (MDOs), which work to provide microloans and technical assistance such as marketing, management, and operational assistance to rural small businesses.[72] The appropriations bill passed in 2019 did restore last-minute funding for RMAP.[73] Future budgets should ensure appropriate funding for RMAP and MDOs.

The U.S. Senate Committee on Small Business & Entrepreneurship introduced in July 2019 the Closing the Credit Gap Act, which would permanently establish the SBA's 7(a) Community Advantage Pilot Program (CA). This Act would expand the geographic and demographic reach of SBA loans by allowing underserved groups such as women and small business owners of color access to CA loans, regardless of business location. Congress should pass the Closing the

[68] Ibid.
[69] Ibid.
[70] The U.S. Impact Investing Alliance and Beeck Center at Georgetown University, *Prioritizing and Achieving Impact in Opportunity Zones*, February 2019, https://static1.squarespace.com/static/5c5484d70b77bd4a9a0e8c34/t/5c61f945fa0d605af5448daf/1549924682936/Opportunity+Zones+Reporting+Framework+-+February+2019.pdf.
[71] Ibid.
[72] "Rural Microentrepreneur Assistance Program," National Sustainable Agriculture Coalition, last modified April 2016, *http://sustainableagriculture.net/publications/grassrootsguide/rural-development/rural-micro-entrepeneur-assistance/.*
[73] Anna Johnson, "Rural Values Amplified in Washington, D.C.," Center for Rural Affairs, April 29, 2019, *https://www.cfra.org/news/190429/rural-values-amplified-washington-dc.*

Credit Gap Act, which would provide small business owners, especially women and rural entrepreneurs, with access to loans up to $350,000.

The SBA also offers financing options for small businesses especially designed for rural entrepreneurs.[74] One such initiative is the SBA's Rural Initiative Pilot Program, which expands the areas in which Certified Development Companies (CDCs) can operate. A CDC is a non-profit organization certified by the SBA to provide "504" loans to small businesses. The 504 Loan Program provides approved small businesses with long-term, fixed-rate financing to acquire fixed assets for business expansion or modernization. Most 504 loans are structured so that the SBA provides 40 percent of total project costs, a lender covers up to 50 percent of total project costs, and the borrower contributes 10 percent of the project costs. Eligible businesses must be for-profit and within the size standards set by the SBA. The business's tangible net worth cannot exceed $15 million, and it must have an average net income of $5 million or less after federal income taxes for the preceding two years prior to application.[75] The Rural Initiative Pilot Program builds off this model by allowing CDCs to make 504 loans to small business outside of the CDC's area of operation if the project qualifies to receive a 504 loan from the SBA, is located in a rural county, and the rural county is located in the same SBA region in which the CDC is incorporated. The pilot began on August 10, 2018, and will run through July 20, 2020. Subject to an evaluation of the results of the pilot, extending this program could help increase access to capital for rural small businesses.[76]

- **Strengthen the Community Reinvestment Act.** The Office of the Comptroller of the Currency (OCC), which regulates national banks, released on August 28, 2018, an Advanced Notice of Proposed Rulemaking that requested feedback on possibly drastic changes to the CRA. One idea the OCC floated was to lessen the significance of branch banking in CRA compliance. For neighborhood businesses, the local branch is a key source of credit and business loans. Research has shown that local bank branch closings resulted in a 13 percent decline in small business lending that lasts for several years, that the decline is concentrated in low-income and predominantly minority neighborhoods, and that the decline is not affected by the opening of new branches following the closings.[77] This is particularly concerning given over 6,000 bank branches in the U.S. were closed from 2008 to 2016.[78] Given the importance of maintaining existing branches in LMI neighborhoods to preserve small business access to bank loans, branch banking should remain an important factor in CRA compliance, and banks should be required to obtain non-objection letters from their regulator whenever seeking to close branches in LMI neighborhoods.[79]

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[74] U.S. Small Business Administration, "Refresher on SBA's Small Rural Lender Advantage," *The Lender's Advantage,* June 2010, *https://www.sba.gov/sites/default/files/ia_desmo_2010-13pdf.pdf.*

[75] "Office of Financial Assistance | Resources," U.S. Small Business Administration, https://www.sba.gov/offices/headquarters/ofa/resources/4049.

[76] "Rural Initiative Pilot Program," U.S. Small Business Administration, *https://www.sba.gov/partners/lenders/cdc504-loan-program/rural-initiative-pilot-program.*

[77] Hoai-Luu Q. Nguyen, "Do Bank Branches Still Matter? The Effect of Closings on Local Economic Outcomes," December 2014, accessed November 30, 2016, http://economics.mit.edu/files/10143. A later version of this study was published in October 2015, by the University of California at Berkeley.

[78] National Community Reinvestment Coalition, Bank Branch Closures from 2008-2016: Unequal Impact in America's Heartland, May 8, 2017, accessed April 6, 2018, https://ncrc.org/wp-content/uploads/2017/05/ NCRC_Branch_Deserts_Research_Memo_050517_2.pdf.

[79] According to an article in the Wall Street Journal, Bank of America has closed 1,597 branches, mostly in rural areas, since the start of the financial crisis. The bank has pulled out of 253 counties entirely, reducing its presence from 725 counties to 472 counties nationwide. Of the counties Bank of America has exited, 95 percent are outside of metropolitan areas with populations of 1 million or more. Over the same period, the bank has opened branches in more populated cities; Rachel Louise Ensign and Coulter Jones, "How Bank of America Ditched 1,597 Branches

The Federal Reserve Board of Governor's Lael Brainard in a speech on March 12, 2019, to the National Community Reinvestment Coalition Conference stressed the importance of the three federal banking regulators working together on proposed CRA changes in contrast to the OCC's go-it-alone approach.[80] Governor Brainard also stressed the ongoing importance of physical bank branches. Governor Brainard's remarks, as compared to the OCC proposal, reflect an approach to CRA modernization that would strengthen the law, especially for small businesses that rely on bank branches.

Modernizing the determination of assessment areas would also benefit small businesses in LMI communities. Assessment areas are currently based on a bank's physical presence. This is an outdated approach given the prevalence of mobile and online banking. The assessment area, especially for banks that operate largely, if not entirely, without branches, should be expanded to include more communities actually served by the bank. Expanding the area would extend the benefits of CRA to some areas that are currently "banking deserts," which are areas with little to no access to banking centers. Small businesses in LMI communities would benefit directly from a more expansive approach to determining assessment areas.

From the legislative perspective, U.S. Senator Elizabeth Warren and U.S. Representative Cedric Richmond re-introduced legislation in March 2019 titled the American Housing and Economic Mobility Act (S. 787 & H.R. 1737) that would strengthen the CRA in important ways. The bill would expand the scope of entities required to engage in community development and other CRA-qualifying activities to include non-banks, such as mortgage companies, who are the biggest source of the nation's mortgage lending. The bill would extend the law's scope beyond LMI communities to include "underserved and distressed" communities. As for assessment areas, the bill would modernize assessment areas by including both areas with physical branches and areas in which the financial institution issues a considerable number of loans or other financial products. All these steps would have the effect of extending the benefits of CRA to more people and communities, including more small businesses.

- **Strengthen Community Reinvestment Act Enforcement.** One way to improve the performance of CRA-reporting financial institutions in making small loans to businesses in LMI census tracts is for CRA examiners to place more emphasis on the business lending part of the exam than they currently do in determining CRA ratings. The change, however, should not be a zero-sum approach, placing more weight on business lending and diminishing the importance of the other types of lending, such as mortgages, in the lending component of the exam. Instead, examiners need to be more stringent in the scoring of performance with respect to all types of lending.

Examiners also need to consider the type of small business loans banks are offering, rather than aggregating term loans, lines of credit, and credit cards into a single category. Different types of loans serve very different purposes and should not be considered fungible in determining

Across the U.S.," *The Wall Street Journal*, September 17, 2017, https://www.wsj.com/articles/how-bank-of-america-ditched-1-597-branches-across-the-u-s-1505646000.

[80] Lael Brainard, "The Community Reinvestment Act: How Can We Preserve What Works and Make it Better?," (remarks, 2019 Just Economy Conference, Washington, D.C., March 12, 2019), accessed April 8, 2019, https://www.federalreserve.gov/newsevents/speech/files/brainard20190312a.pdf.

whether banks are meeting the credit needs of businesses. CRA examiners should consider the mix of loan types in their assessment of CRA performance. For example, examiners should compare separately for each loan type the percentage of small business loans in LMI census tracts with the percentage of each loan type in all census tracts within the bank's service areas.

Examiners should also look at the extent to which banks that are not lending proportionately to businesses in LMI census tracts are financing fintech lenders that are making high-cost loans to businesses in those areas.

In addition to the lending test, regulators need to be more critical in enforcement of the CRA investment and service tests. On the investment test, regulators should prioritize investments in CDFIs and community lenders over other activities, such as investment in mobile banking services. Under the service test, regulators should provide more incentive for banks to maintain brick-and-mortar branches in LMI neighborhoods. As discussed above, bank branches are essential for many LMI customers and businesses in LMI neighborhoods. Branches provide services that may not be available through Automatic Teller Machines (ATMs), such as help completing loan applications or sending remittances. Some customers, particularly older people, may not be comfortable with ATMs or mobile technology and prefer to bank in person, as they always have.

According to one analyst, over 96 percent of banks receive a satisfactory CRA rating or better.[81] When only one in 10 businesses on average in LMI census tracts receives a loan, line of credit, or credit card from a large financial institution in a given year, rating the performance of 96 percent of financial institutions as satisfactory seems to set very low expectations. The significance of more stringent CRA examinations is evident in the $30 billion community benefits agreement (CBA) plan that Fifth Third Bank agreed to with the National Community Reinvestment Coalition

[81] Kenneth H. Thomas, "Comptroller Curry: How About Some Real CRA Reform?," *American Banker*, April 9, 2014, https://www.americanbanker.com/opinion/comptroller-curry-how-about-some-real-cra-reform.

"I'm not really able to go full throttle like I would like to with my business because of the fact that I can't get capital."
-Jemiyah Beard

Photo credit: Christopher Fuller

Jemiyah Beard – Mary's Master Cleaning Service

Jemiyah Beard founded Mary's Master Cleaning Service as a passion project and as homage to Mary, her grandmother. Mary's Master Cleaning Service provides residential and commercial cleaning services in Champaign, Illinois, and the surrounding area. Only age 28, she has established her place as a young entrepreneur. In her pursuit of the 'American Dream,' Jemiyah has perpetually kept the needs of her community in mind, hiring locally and working with returning citizens who often struggle to find employment after incarceration.

Mary's Master Cleaning Service is ready to grow, but struggles to meet its capital needs. Bank requirements that business owners provide several years of financial records in order to receive a loan have made it impossible for Jemiyah to secure financing. She has had to use her savings and paychecks from a part-time job to cover the cost of equipment such as mops, buckets, ladders, and a vehicle, and insurance.

What could Mary's Master Cleaning Service do with more capital?
Jemiyah wants to expand her business but, without access to business capital, she is unable to bid on larger projects, which have prohibitively large upfront payroll costs. "I'm not really able to go full throttle like I would like to with my business because of the fact that I can't get capital," she said. A bank loan would give Jemiyah the ability to go after larger contracts, which would allow her business to grow and provide more jobs in her community.

in 2016 to address its "Needs to Improve" CRA rating without any merger or acquisition pending.[82]

● **Require banks seeking to merge with or acquire other banks to commit to increased investment in LMI communities.** Regulators should require strong CBAs with community input and measureable goals for approval of mergers and acquisitions. Mergers and acquisitions present one of the rare opportunities for the prudential regulators to use their authority under the CRA to require banks to fully meet their obligations to invest in LMI census tracts. Advocates and community groups have negotiated CBAs with banks seeking regulatory approval for mergers or acquisitions, and regulators should use those agreements as performance models for the future, both as to the process through which the agreements are reached and the substantive requirements that the agreements contain. For example, Huntington Bank made a $16.1 billion commitment in a CBA as part of the approval process for its acquisition of FirstMerit Bank, and CIBC made a $3 billion commitment in a CBA in connection with its acquisition of The PrivateBank. Other banks seeking approvals for mergers and acquisitions should be required to make similar commitments as a condition of the approval. BB&T and SunTrust recently announced a CBA with NCRC worth $60 billion over three years in connection with their merger into Truist Financial.[83]

● **Require non-bank lenders to serve and invest in their communities.** More than half of mortgage loans in the U.S. are now made by non-bank mortgage companies such as Quicken Loans and loanDepot. Amendments to the CRA should extend the scope of the CRA to include mortgage companies and other non-bank lenders, such as fintech lenders operating under a federal charter. The American Housing and Economic Mobility Act, discussed above, would expand the scope of entities required to engage in community development and other CRA-qualifying activities to include mortgage companies

As for fintechs seeking a federal charter, regulators should incorporate the equivalent of CRA requirements for investment in LMI census tracts, fair lending, consumer protection, and safety and soundness oversight similar to those for banks; also, the charter should not preempt state laws conferring greater protection on business borrowers. Nationally chartered banks are allowed to charge the maximum interest rate on consumer loans permitted in the state in which they are incorporated, even if that rate exceeds the maximum allowed in the borrower's state of residence, effectively gutting state usury laws.

The OCC proposed a federal charter for fintech lenders in 2016.[84] Applicants for a federal fintech charter, also called a "Special Purpose National Bank," (SPNB) must include a "financial inclusion plan" (FIP) with their application. The FIP must include the SPNB's

> anticipated markets and communities, including underserved populations or communities, including low- and moderate-income customers [;] goals,

[82] Fifth Third Bank, *Fifth Third Bank's Community Commitment Plan Summary*, https://www.53.com/content/dam/fifth-third/docs/education/53-commitment-plan-summary.pdf.
[83] "BB&T, SunTrust and NCRC announce $60 billion community investment commitment for new Truist bank," National Community Reinvestment Coalition, July 16, 2019, accessed August 1, 2019, https://ncrc.org/bbt-suntrust-and-ncrc-announce-60-billion-community-investment-commitment-for-new-truist-bank/.
[84] U.S. Department of the Treasury, Office of the Comptroller of the Currency, *OCC to Consider Fintech Charter Applications, Seeks Comment*, NR 2016-152, https://www.occ.gov/news-issuances/news-releases/2016/nr-occ-2016-152.html.

> milestones, commitment measures [such as loan origination volumes], and metrics (e.g., the measure as a percentage of activity in anticipated markets and communities, such as the share of lending to low- and moderate-income borrowers).[85]

In terms of preempting state laws, an SPNB would have "the same status and attributes under federal law as a full-service national bank," so state usury laws would be preempted.[86] No company has applied for a fintech charter from the OCC, and the State of New York and the Conference of State Banking Supervisors have filed lawsuits against the OCC challenging its authority to establish the charter.

Another type of federal charter is an "Industrial Loan Company" (ILC). ILCs have been in existence since the turn of the 20th Century. An ILC is an FDIC-insured bank operating under a federal charter whose owner may be a nonfinancial corporation. The ILC is subject to oversight by federal and state bank regulators; however, the controlling company in many cases is not. Wal-Mart applied for an ILC in 2005, which set off furious opposition from various sectors – most notably traditional banks and labor unions. Critics of the ILC say that it is a banking loophole; it could allow a corporate retail giant such as Wal-Mart, which has no federal banking regulatory oversight, to own and control a bank.

The fintech SoFi applied for an ILC in 2017, and consumer groups, including Woodstock, opposed the application, expressing that the application did not demonstrate a significant commitment to meeting the convenience and needs of the community. SoFi withdrew its application later that year. Square Capital, known for the small, white square credit card processing device, filed an ILC application in 2017, withdrew the application, and filed again in late 2018. Again, consumer groups, led by the California Reinvestment Coalition and including Woodstock, opposed the application because Square proposed to reinvest mainly in the area around its Salt Lake City headquarters despite the fact that the vast majority of its presence, activity, and customers will be outside of its proposed Salt Lake CRA assessment area.[87] In a separate letter to the FDIC, Woodstock, noting that the Square payment processing device has helped cash-only businesses bridge the digital divide and begin accepting credit card payment, proposed that Square, as part of its CRA plan, provide age-appropriate education and technical assistance targeted at older entrepreneurs in LMI communities.[88] Many older adults are entrepreneurs who may experience a digital divide that risks leaving them out of the financial mainstream.[89]

Fintechs Varo and Robinhood have chosen to apply to the OCC to become full-fledged banks. Fintech lender OnDeck Capital announced on July 29, 2019, that it would be seeking a federal

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[85] U.S. Department of the Treasury, Office of the Comptroller of the Currency, *Comptroller's Licensing Manual Supplement: Considering Charter Applications From Financial Technology Companies*, July 2018, https://www.occ.treas.gov/publications/publications-by-type/licensing-manuals/pub-considering-charter-apps-from-fin-tech-co.pdf

[86] U.S. Department of the Treasury, Office of the Comptroller of the Currency, *Exploring Special Purpose National Bank Charters for Fintech Companies*, December 2016, https://www.occ.gov/topics/responsible-innovation/comments/pub-special-purpose-nat-bank-charters-fintech.pdf.

[87] California Reinvestment Coalition, Community Group Opposition to Square Application for ILC Charter, (letter, Feb. 19, 2019), https://californiareinvestmentcoalitio.app.box.com/s/51om2qtu7s4z7pkqhh1tabi8r7fnlvyo.

[88] Dory Rand, Dory Rand to Janet R. Kincaid, FDIC, (letter, March 8, 2019), https://woodstockinst.org/advocacy/comment-letters/letter-to-fdic-supplementing-objections-to-square-ilc-charter/.

[89] Woodstock Institute, *Digitally Divided: Older Adult Banking Vulnerabilities in the Chicago Region*, by Lauren Nolan, April 2019, https://woodstockinst.org/research/reports/digitally-divided/.

charter but did not specify whether it would be applying for a federal bank charter or some other type of federal charter (although it did say it would not be seeking the OCC's special fintech charter).[90] The OCC granted preliminary conditional approval to Varo on August 31, 2018.[91] Varo now awaits approval by the FDIC for deposit insurance. The National Community Reinvestment Coalition took the lead in opposing Robinhood's application. Woodstock and many other consumer groups joined the NCRC letter opposing Robinhood's application based on the inadequacy of its CRA plan.[92] Because fintechs becoming banks is a new phenomenon, it is especially important that the first set of charters have strong CRA plans so that they set a high bar for future applicants.

- **Crack Down on Deceptive and Abusive Practices by Lenders to Small Business.** It is axiomatic that where there is money involved, there will be unscrupulous players. In the context of small business loans, this truth can surface in various ways: deceptive offers, misleading loan terms, and abusive collection practices. The tactic that has garnered the most attention is the use of "confessions of judgment" by merchant cash advance companies.[93] In this scenario, as a condition of receiving financing, a merchant cash advance company requires a small business borrower to agree to a "confession of judgment," which means the borrower is, in advance, confessing to violating the loan agreement. This allows the lender to bypass the standard judicial proceeding that would normally be required before obtaining a judgment against a small business. Instead, the lender – backed by the court system -- can move immediately to seize a small business's bank account and other assets. *Bloomberg* did an in-depth piece on the issue last year. The article provides harrowing detail about the potential consequences of this abusive tactic.[94]

Regulators, policymakers, and law enforcement have begun to take action. The New York Attorney General opened an investigation in December 2018 into whether "merchant cash advance companies engaged in fraud or abused the state court system."[95] The Federal Trade Commission (FTC) launched an investigation in May 2019 into "potentially unfair or deceptive practices in the merchant cash advance industry."[96] Also, the Manhattan district attorney is conducting a criminal investigation of a group of merchant cash advance executives.[97] U.S. Senators Sherrod Brown (D-OH) and Marco Rubio (R-FL) introduced legislation on December

[90] Kevin Wack, "What's Next for OnDeck after breakup with JPMorgan?," *American Banker*, July 29, 2019, https://www.americanbanker.com/news/whats-next-for-ondeck-after-breakup-with-jpmorgan?utm_source=newsletter&utm_medium=email&utm_campaign=AB_Dailybriefing_LIVE%2B%27-%27%2B07302019&bt_ee=9GxXCl3v7PraquaPU1QqyndG9leoOBTIIij6d7%2FJJJiF9ABehBvL8fD181onDbkl&bt_ts=1564480607598

[91] U.S. Department of the Treasury, Office of the Comptroller of the Currency, *Preliminary Conditional Approval of the De Novo Charter Application for the Proposed Varo Bank, National Association, Salt Lake City, UT (Charter Number 25147)*, August 31, 2018, https://www.occ.treas.gov/topics/licensing/interpretations-and-actions/2018/ca1205.pdf.

[92] National Community Reinvestment Coalition, NCRC Comment Letter on Robinhood's Charter Application, (letter, May 30, 2019), https://ncrc.org/ncrc-comment-letter-on-robinhoods-charter-application/.

[93] Merchant cash advance (MCA) companies typically argue that their product is not a loan because repayment is contingent on a future event, namely, the small business's earning of revenue. With an MCA, a small business agrees to pay a percentage of future revenue; if there is no revenue, the MCA is not repaid. To avoid creating a loophole in protections for small business borrowers, MCAs should be included in the definition of "small business loan." For purposes of our recommendations, an MCA is included in the meaning of the term "loan."

[94] Zachary R. Mider and Zeke Faux, "How an obscure legal document turned New York's court system into a debt-collection machine that's chewing up small businesses across America," *Bloomberg Businessweek*, November 20, 2018, https://www.bloomberg.com/graphics/2018-confessions-of-judgment/.

[95] Zeke Faux and Zachary Mider, "New York State is Probing Abuses in Small-Business Lending," *Bloomberg*, December 3, 2018, https://www.bloomberg.com/news/articles/2018-12-03/new-york-state-is-said-to-probe-abuses-in-small-business-lending

[96] Zeke Faux and Zachary Mider. "FTC, Manhattan Prosecutors Probe Costly, Small-Business Loans." *Bloomberg*, May 23, 2019. https://www.bloomberg.com/news/articles/2019-05-23/ftc-manhattan-prosecutors-probe-costly-small-business-loans

[97] Ibid.

"Banks need to give small businesses a chance."
-La'Jobie Mosley

Photo credit: Inner-City Wrap

La'Jobie Mosley – Lion Construction 1, LLC

La'Jobie Mosley's company, Lion Construction I, LLC, is one of only two black-owned construction companies in Pembroke Township, Illinois. The other company belongs to his son. Since its founding in 2008, La'Jobie has successfully grown his venture into a medium-sized business. Prior to founding his business, La'Jobie spent years in the construction industry, becoming the first African American foreman at another company. He credits his success to his intimate knowledge of the industry.

Access to credit has been key. After struggling with steep requirements that changed from bank to bank, Lion Construction eventually received a bank-brokered Small Business Administration Loan, which provided seed money for the initial venture. Over the years, La'Jobie successfully established a strong relationship with a local community bank, which put its faith in his experience and his company's ability to grow.

What needs to change in the small business lending environment for small businesses to thrive?
La'Jobie says, "Banks need to give small businesses a chance." He notes that many smaller ventures start out with little to no capital, and many minority-owned small business owners, in particular, may not have the credit history or credit scores that banks require to approve a loan. By providing the capital and the framework that these businesses need to get off the ground, banks can create a win-win situation in which they allow these businesses to flourish and receive a successful return on their investment.

6, 2018 (re-introduced on June 25, 2019), called the Small Business Lending Fairness Act. The Act would codify an FTC rule banning confessions of judgment in consumer loan agreements, and would expand the ban to business loan agreements. Congress should pass and the President should sign this bi-partisan legislation.

Government scrutiny should not be limited to confessions of judgment, however. The FTC investigation should include a review of small business lenders' marketing, loan agreements, and loan terms. Even if existing law constrains the FTC from taking action against unaffordable loans and usurious interest rates, an investigation could shine a light on such practices, which could inform and spur future policymaking.

- **Require non-bank lenders to disclose small business loan APRs to borrowers.** The Federal Reserve System released a study in 2018 showing small businesses are often confused by online small business loan products.[98] In order to reduce confusion and promote transparency in the market, Illinois and other states should adopt a law requiring non-bank fintech companies that make loans to small businesses to disclose annual percentage rates (APRs) to small business borrowers in a way similar to how lenders are required to disclose APRs to consumers under the Truth in Lending Act. California became the first state to enact such a law on September 30, 2018 (SB 1235). As of this report's publication, no other state has followed suit.

To create transparency and accountability in the marketplace, lenders to individuals are required under TILA to disclose a loan's APR to prospective borrowers. An APR is a metric widely understood by consumers as representing the cost of a loan. Small business borrowers are not entitled to TILA protections. Without an APR disclosure requirement, small business lenders can disclose the cost of a loan by whatever method they choose. For example, one

[98] Barbara J. Lipman and Ann Marie Wiersch, *Browsing to Borrow: "Mom & Pop" Small Business Perspectives on Online Lenders*, Board of Governors of the Federal Reserve System, June 2018, https://www.federalreserve.gov/publications/files/2018-small-business-lending.pdf.

common method is for the lender to disclose—in a form somewhat similar to the TILA box disclosure with which most people are familiar—the cost of the loan as a percentage of the business's receipts. This number may be somewhere in the range of 10 to 15 percent, which could be affordable if it represented the APR. However, this amount, depending on the loan's term, could equal a triple-digit APR. Requiring TILA-like disclosures to small businesses would directly impact an entrepreneur's understanding of the cost of a loan and thereby enable the entrepreneur to comparison shop for the best deal. An increased ability to comparison shop would make the market more competitive, which could create downward pressure on rates.

In all states except California, it is perfectly legal for fintech lenders to disclose the cost of their products in opaque and misleading ways that mask exorbitant APRs on their loans. Opaque and misleading disclosures increase the risk of small businesses becoming trapped by a loan that they cannot afford to repay. A debt trap can destroy a business. Most small businesses are sole proprietorships and do not have attorneys and financiers to explain complex loan documents and terms.[99] Smaller businesses are also less able to absorb an unexpected drain on cash flow. Compounding the problem, online fintech loans can be appealing to small businesses due to their speed and convenience. Further, small businesses that cannot obtain financing from a bank, which are disproportionately small businesses in communities of color, may have no other option for obtaining capital.

APR disclosure is one of the recommendations of the Responsible Business Lending Coalition (RBLC), "a network of for-profit and non-profit lenders, brokers, and small business advocates."[100] Woodstock is an official endorser of the coalition. The RBLC developed a set of voluntary standards for small business lenders called the Business Borrowers' Bill of Rights (BBOR).[101] Among the rights in the BBOR is the right to "transparent pricing and terms," including disclosure of an APR. The RBLC, with Woodstock's support, spearheaded the effort in California that resulted in the adoption of the APR-disclosure policy.

- **Extend ability-to-repay protection to small business loans.** In addition to recommending that small business borrowers have the right to transparent APRs, the RBLC recommends that lenders offer loans only with "high confidence" that the small business borrower can repay the loan.[102] Small business borrowers, many of whom assume personal liability for repayment of loans to their businesses,[103] should receive protection from unaffordable small business loans just as individuals now receive protection from unaffordable mortgage loans. After the mortgage crisis in 2008 that decimated the U.S. economy and destroyed the financial security of millions of families, especially families of color, Congress passed the Dodd-Frank Act, which required mortgage lenders to make a "reasonable and good faith determination" that borrowers could

[99] Karen Gordon Mills and Brayden McCarthy, "The State of Small Business Lending: Innovation and Technology and the Implications for Regulation," (working paper, Harvard Business School, 2016), *http://www.hbs.edu/faculty/Publication%20Files/17-042_30393d52-3c61-41cb-a78a-ebbe3e040e55.pdf.*
[100] "About Us," Small Business Borrowers' Bill of Rights, http://www.borrowersbillofrights.org/about-us.html.
[101] Responsible Business Lending Coalition, *Small Business Borrowers' Bill of Rights*, June 2019, http://www.borrowersbillofrights.org/uploads/1/0/0/4/100447618/bbor_2019_-_june.pdf.
[102] "Bill of Rights," Small Business Borrowers' Bill of Rights, http://www.borrowersbillofrights.org/.
[103] According to the Census Bureau, http://www.census.gov/econ/nonemployer/, the majority of all business establishments in the United States are nonemployers, that is, self-employed individuals operating unincorporated businesses (known as sole proprietorships). See also Mills and McCarthy, 2016.

repay their loans.[104] Similar protections also exist in the CFPB's rule on short-term payday and auto-title loans (the "Payday Loan Rule"), which is scheduled to take effect on November 19, 2020.[105]

Ability-to-repay in the mortgage context means that mortgage payments cannot exceed 43 percent of the borrower's income, and the mortgage cannot have other characteristics that can be harmful to borrowers, such as negative amortization under which the loan principal increases over time, even though the borrower is making payments. In the payday and title lending context, ability-to-repay means the consumer can repay the loan in full when due and still meet basic living expenses and major financial obligations. It is reasonable to apply this same standard to the small business context, although the types of information that a lender would collect in the individual loan context are different in some ways than in the small business context. For example, small business loan applicants should provide standard business accounting documents, such as balance sheets and income statements, to assist the lender in conducting an ability-to-pay analysis.

With the establishment of any new regulatory standards, policymakers should develop enforcement mechanisms so that the standards can be successfully implemented. In the lending context, the traditional method of regulatory enforcement involves an examiner visiting a headquarters or store, pulling a set of loan files, and determining whether the loans were made in accordance with the law. Such a system is inefficient and costly, especially considering the technology that is available. An electronic database can function as both a collector of information and as a gatekeeper or clearinghouse for transactions. Under such a system, a lender enters pertinent data in the database, and the database approves or denies a transaction based on the inputted data. Illinois began using a database in this way in 2006 pursuant to the Payday Loan Reform Act.[106] Today, with real-time enforcement via the database, no payday loan, installment payday loan, or auto title loan is made in Illinois without first getting a "green light" from the database.[107] The database cuts down on human error, saves resources by limiting the scope of examinations, stops unlawful loans *before* they are made, and collects a wealth of data that can be used to inform future policymaking.[108]

Whatever regulatory standards and enforcement mechanisms are established for small business loans, the CFPB should have authority over small business loans as it does over consumer loans, especially for the smallest loans and those for which the business owner assumes personal liability.

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[104] Section 1411 of the Act, 15 U.S.C. Section 1639(a)(1). Some entities are exempt, including CDFIs, nonprofits, and housing finance agencies; Consumer Financial Protection Bureau, "My mortgage lender told me it was exempt from the ability-to-repay mortgage rule. Is this true?," https://www.consumerfinance.gov/ask-cfpb/my-mortgage-lender-told-me-it-was-exempt-from-the-ability-to-repay-mortgage-rule-is-this-true-en-1793/.

[105] Unfortunately, the current leadership at the CFPB is trying to rescind the ability-to-repay protections for these loans, and the industry is challenging the rule in court. It is unlikely the rule will take effect on the current effective date (if ever).

[106] Illinois General Assembly, *Payday Loan Reform Act*, 815 ILCS 122, 2015, http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=2697&ChapterID=67.

[107] With respect to small consumer loans, lenders are required to enter data into the database, but the database does not play a role in the approval process. Small consumer loans are loans, other than title loans, that are $4,000 or less subject to an APR cap of 99 percent.

[108] The CFPB's final payday loan rule contemplates a similar enforcement system. Under the rule, the enforcement databases are called "Registered Information Systems" (RIS). The registration process for the information systems companies – as with all other parts of the rule – has effectively been put on hold while the CFPB "reconsiders" the payday rule. Woodstock strongly opposes weakening the rule. *See* Woodstock Institute, *Comment in response to the Consumer Financial Protection Bureau's notice of proposed rulemaking regarding payday loans*, May 15, 2019, https://woodstockinst.org/wp-content/uploads/2019/05/Woodstock-Comment-Rescinding-Payday-Underwriting-Rule-May-15-19.pdf.

● **Support and increase funding for Small Business Development Centers.** Illinois and other states should continue to support Small Business Development Centers (SBDCs), particularly those that serve rural areas. SBDCs are cooperative efforts involving the SBA, a local college or university, and/or a public or private partner. SBDCs provide training and technical assistance to small business owners and aspiring entrepreneurs. Their services include: one-on-one business advice and management assistance; help developing business plans; business education and training opportunities; specialized services in technology, innovation, and entrepreneurial development; assistance with financial analysis and planning; and assistance accessing business financing.[109] SBDCs do not directly provide financing to businesses, but they can help a small or start-up business with its financing strategy. The OCC notes that, "SBDCs can be valuable partners for banks engaged in small business lending."[110] Banks often refer small business customers to SBDCs, particularly when the small business owner has a reasonable expectation of success, but has some challenges the SBDC may be able to help address.[111] SBDCs can be a valuable resource for small businesses but, as focus groups conducted by Small Business Majority note, many small business owners do not take full advantage of the resources SBDCs offer.[112] This may be due to lack of awareness or lack of coordination with the larger rural small business ecosystem.[113] Public and non-profit entities focused on improving access to capital for small businesses should consider ways to increase public awareness of the resources that SBDCs offer. One way to accomplish this would be to conduct statewide informational meetings, much like the ones held throughout Illinois following Governor J.B. Pritzker's announcement to provide $15 million in funding toward a program that serves minority-owned businesses.[114]

Nationally, there are nearly 1,000 SBDCs that serve approximately one million small business owners and entrepreneurs annually.[115] According to figures provided by the Illinois Department of Commerce & Economic Opportunity, there are currently 32 SBDCs in Illinois located throughout the state. Illinois saw the closure of nearly half—16 of 36—of its SBDCs during the 2015-2017 Illinois budget impasse due to a shortage in state funding. Several SBDCs were able to reopen by raising private funding and receiving assistance from community groups.[116] These closures raised concerns as SBDCs act as a critical resource for both small business owners within Illinois and throughout the country. Since 1984, Illinois SBDCs have provided assistance to over one million pre-venture and existing small businesses and have helped clients secure over $3.25 billion in capital.[117] The SBA and states should not only support legislation to protect and increase federal and state funding for SBDCs, but also work to increase awareness of the services they provide entrepreneurs, particularly around accessing business capital.

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[109] "Illinois Small Business Development Centers (SBDC)", Illinois Department of Commerce & Economic Opportunity, accessed July 31, 2019, https://www2.illinois.gov/dceo/SmallBizAssistance/BeginHere/pages/sbdc.aspx.
[110] U.S. Department of the Treasury, Office of the Comptroller of Currency, "SBA Small Business Development Centers," *Community Developments, Fact Sheet,* February 2016, https://www.occ.gov/topics/community-affairs/publications/fact-sheets/pub-fact-sheet-ca-sbdc-feb-2016.pdf
[111] Ibid.
[112] Small Business Majority, *Unique Opportunities.*
[113] Ibid.
[114] "SIUE SBDC hosts meeting for money available for minority businesses," *The Telegraph,* May 21, 2019, accessed July 30, 2019, https://www.thetelegraph.com/news/article/SIUE-SBDC-hosts-meeting-for-money-available-for-13869222.php.
[115] "A Brief History of America's SBDC Network," America's SBDC, accessed July 30, 2019, https://americassbdc.org/about-us/a-brief-history/.
[116] Steven R. Strahler, "Small-biz centers closing because of state budget woes," *Crain's Chicago Business,* September 6, 2016, accessed July 30, 2019, https://www.chicagobusiness.com/article/20160906/NEWS02/160909961/small-biz-centers-closing-because-of-state-budget-woes
[117] "Illinois Small Business Development Center," Chicagoland Chamber of Commerce, accessed July 30, 2019, https://www.chicagolandchamber.org/Resources/SmallBusinessDevelopmentCenter.aspx.

● **Pass local laws to reward banks that lend to businesses in LMI neighborhoods and communities of color.** Local governments should use responsible banking ordinances that link government bank deposits to community reinvestment performance to encourage financial institutions to make more small loans to businesses in LMI neighborhoods and communities of color. As part of a revitalization strategy, for example, lenders that do the most to provide credit to businesses in neighborhoods targeted for revitalization could receive preference for municipal deposits and other banking services that the municipality needs. The effect would be to use the deposits and other services to make private capital available to support economic development in the neighborhood. Any responsible banking ordinance, however, must be carefully crafted as an incentive, not a mandate, to avoid having a court rule that it is preempted by federal and state bank regulations.

● **Invest in Underserved and Distressed Commercial Areas.** Municipal investments can catalyze small business development while also repurposing vacant buildings. For example, Chicago's Neighborhood Opportunity Fund recently awarded a $1.6 million grant to the Rebuild Foundation to transform a shuttered school into an arts and business incubator. The facility will, among other things, provide a range of entrepreneurial training programs to individuals working in creative industries.[118] Money for the fund comes from developers who have projects in and around the Chicago Loop, Chicago's business district. Cities should consider replicating this model for steering investment to disinvested communities and commercial areas.

● **Help Steer Opportunity Fund Investments to Areas with Greatest Need.** As discussed in the section on recommendations for federal policymakers, there is much uncertainty about whether Opportunity Zones will help, hurt, or have no significant impact on distressed and underserved areas. In at least three ways, cities can play a role in trying to steer Opportunity Fund investments to areas most in need. First, as recommended by the National League of Cities, cities should "[p]repare a point person or agency to play a coordinating/support role to connect investors and local needs, be they development projects or exciting new startups, on an ongoing basis."[119] Second, as recommended by the Governance Project, cities should use the permitting process and zoning code to support projects that address social needs and to curb any potential program abuses.[120] For example, cities could fast-track the permit process for certain projects and apply to the zoning board for nonconforming use exemptions for projects that solve community needs. Finally, cities should help convene local nonprofits, CDFIs, and other players to plan ways to maximize the likelihood of attracting worthwhile investments to appropriate locations. For example, the Chicago Community Loan Fund, a CDFI, is the convener of the Chicagoland Opportunity Zone Consortium. The Consortium, which includes representatives from the City of Chicago, Cook County, foundations, and numerous non-profits and CDFIs involved in community development, is establishing criteria for evaluating prospective investments and is considering how to develop investment incentives.[121]

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[118] "Foundation gets $1.6M to redevelop school in Greater Grand Crossing," *Chicago Crusader*, May 8, 2019. https://chicagocrusader.com/foundation-gets-1-6m-to-redevelop-vacant-school-in-greater-grand-crossing/

[119] Steve Glickman and John Lettieri, "5 Things City Leaders Should Know About Opportunity Zones," National League of Cities, Feb. 26, 2018, https://www.nlc.org/article/5-things-city-leaders-should-know-about-opportunity-zones.

[120] The Governance Project, *Municipal Toolkit for Maximizing the Impact of Opportunity Zones*, https://governanceproject.org/wp-content/uploads/2019/03/TGP_FullToolkit.pdf.

[121] Robert Tucker, COO and Executive Vice President of Programs, Chicago Community Loan Fund, telephone interview with author, July 30, 2019.

Recommendations for Banks

● **Ensure equal treatment of loan applicants.** Banks should require compliance and fair lending teams to actively take steps to ensure consistency in the delivery of small business products and services. The disparities in lending to borrowers in communities of color identified in this and the previous series of Woodstock Institute reports, and the evidence of small business loan officer discrimination against and discouragement of small business loan applicants from protected classes highlighted in other research reports, raise serious fair lending concerns. A matched-pairs mystery shopping study conducted by researchers at the National Community Reinvestment Coalition, Utah State University, Brigham Young University, Rutgers University and Lubin Research found that banks were twice as likely to offer white entrepreneurs help with their small business loan applications compared to black entrepreneurs.[122] Similarly, bankers were three times more likely to extend invites for follow-up appointments to white borrowers than to better-qualified black borrowers.[123]

Bank training of small business loan officers should emphasize consistent and fair treatment of all loan applicants including, for example, how loan officers offer business cards and assistance or make referrals. Banks should also ensure that their loan officers understand the culture of the neighborhoods they serve and can relate to the small business owners and entrepreneurs in their communities. Banks should also conduct periodic internal mystery shopping using testers of various backgrounds and protected classes, such as race, ethnicity, national origin, gender, and marital status, to ensure that applicants of different backgrounds receive the same levels of products, services, and assistance. Considering the extent to which lending and banking continues to become more automated and "intelligent," banks should also test their systems to guard against algorithmic bias or other processes that might have a disparate impact on protected classes.

● **Support nonprofit organizations that conduct fair lending and testing, or fair lending research and advocacy.** The disparities in lending to borrowers in LMI communities identified in this series of reports raise concerns about the extent to which banks are meeting their obligations under the CRA to serve the credit needs of LMI people and communities, consistent with safety and soundness. Banks should support nonprofit organizations that conduct fair lending training and testing or fair lending research and advocacy. To the extent that bank grants or investments in fair lending training, testing, research, and advocacy primarily benefit LMI persons and communities, banks can receive favorable consideration under the CRA investment or community development tests.

● **Promote Entrepreneurship Opportunities in Disadvantaged Communities.** Banks (and bank foundations) should take affirmative steps to promote entrepreneurship opportunities for individuals and communities that traditionally struggle to obtain funding. For example, JPMorgan Chase recently awarded a $3 million grant to West Side United, a nonprofit focused

[122] Jesse Meisenhelter, "Study Documents Discrimination Against Black Entrepreneurs," NCRC, November 7, 2017, accessed June 27, 2019, *https://ncrc.org/study-documents-discrimination-black-entrepreneurs/*.; Sterling Bone et al., "Shaping Small Business Lending Policy Through Match-Paired Mystery Shopping," March 25, 2018, accessed June 27, 2019, *http://dx.doi.org/10.2139/ssrn.3035972*.
[123] Ibid.

on improving health in 10 neighborhoods on the west side of Chicago.[124] Chicago's west side is disproportionally lower-income and predominantly people of color. West Side United will use some of the funds to expand its program to provide financial support to small businesses. A recent report by the New Venture Fund and Arabella Advisors, calls these types of approaches "inclusive investing."[125] Inclusive investing involves strategies to affirmatively confront and address "the implicit and structural biases that currently disadvantage women entrepreneurs and entrepreneurs of color."[126] Inclusive investing is not just about giving money. For example, the report recommends that bank foundations use their convening power "to facilitate dialogue among white/male investors and women entrepreneurs/entrepreneurs of color about their respective challenges."[127]

Returning citizens present another opportunity for banks to engage in inclusive investing. Banks should look beyond a loan applicant's criminal past and should, instead, focus more on the likelihood of the business's success in the future. In Pittsburgh, a CDFI called Bridgeway Capital provides financing to formerly incarcerated citizens returning to neighborhoods like Homewood, a predominantly African-American neighborhood. Noting that the pressure of business is less stressful than being incarcerated, the CDFI's entrepreneur lending director, Shawn Thomas, said formerly incarcerated clients are just as successful as clients who haven't been incarcerated.[128]

Recommendations for Non-Bank Lenders

- **Join RBLC and Actively Support Public Policies Recommended in this Report.** In our experience, responsible lending—as embodied in the BBOR—is not just the right thing to do, it is good for business. If borrowers have a positive experience with a lender, they are more likely to return to the lender for future financing needs and to refer the lender to others. Unscrupulous practices can also draw the ire of regulators, policymakers, law enforcement, and the public—leading to prohibitions, sanctions, litigation, and more. Non-bank small business lenders should join the RBLC and support the public policies outlined here. RBLC member Lending Club took an active role in obtaining passage of California's small business lending APR disclosure law (SB 1235). Go to http://www.borrowersbillofrights.org/join-us.html to join the RBLC.

- **Develop a Community Reinvestment or Financial Inclusion Plan.** Non-bank lenders should develop a plan to invest in the underserved communities that fall within the lender's major markets. The lender's physical presence—if it has any—should not limit the scope of such a plan. The plan should be developed with community input and should have measurable goals. The size of the commitment should be proportional to the lender's business. By way of comparison, IberiaBank made a $6.72 billion commitment in 2017 to provide loans and services to LMI communities. The commitment amount was the equivalent of 24 percent of bank assets

[124] Lisa Bertagnoli, "Chicago health-focused nonprofit gets $3 million from JPMorgan Chase," *Crain's Chicago Business*, April 18, 2019, https://www.chicagobusiness.com/nonprofits-philanthropy/chicago-health-focused-nonprofit-gets-3-million-jpmorgan-chase.
[125] New Venture Fund and Arabella Advisors, *An Economy for All: How Philanthropy Can Unlock Capital for Women Entrepreneurs and Entrepreneurs of Color through Inclusive Investing,* February 2019, https://aneconomyforall.com/Inclusive-Investing-Report.pdf.
[126] Ibid., 1.
[127] Ibid., 30.
[128] An-Li Herring, "Homewood Bound: How Some in the Neighborhood Put Their Lives Back Together After Time Behind Bars," *WESA 90.5 – Pittsburgh's NPR News Station,* July 17, 2019, https://www.wesa.fm/post/homewood-bound-how-some-neighborhood-put-their-lives-back-together-after-time-behind-bars#stream/0.

and 33 percent of total bank deposits.[129] Woodstock partner NCRC led the negotiations that led to that deal. To be clear, the bulk of these types of commitments are not giveaways. They consist of loans that are properly underwritten and expected to be repaid (with interest). A far smaller share represents grants that have no expected return on investment. In the IberiaBank plan, $20 million was committed for grants and philanthropy.

[129] Steve Dubb, "Bank to Direct 24% of Assets to Serve Low- and Moderate-Income Communities," *Nonprofit Quarterly*, November 8, 2017, https://nonprofitquarterly.org/bank-direct-24-assets-serve-low-moderate-income-communities/.

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