



Fresno Small Business Capital Flows & Gaps Analysis

Community Findings Presentation & Discussion

December 7, 2022



Agenda

- **12:00–12:10 | Overview of Project Context & Methodology**
- 12:10–12:35 | Presentation of Key Findings
- 12:35–12:50 | Q&A
- 12:50–1:25 | Ecosystem Leader Discussions Panel
- 1:25–1:50 | Breakout Discussions
- 1:50–2:00 | Wrap Up

Project Context & Acknowledgements

Project Context

- Stakeholders from the Funding Fresno collaborative and Fresno DRIVE initiative sought to document the case for greater investments to support the small businesses lending ecosystem in the Fresno region.
- Funding Fresno sought to understand the flow of capital to small businesses, unmet demand for capital, and other gaps to inform the development of strategies to improve capital access, such as supporting community development financial institutions (CDFIs).
- On behalf of Funding Fresno, Access Plus Capital with support from Central Valley Community Foundation and Friedman Associates, commissioned a study by P2 Advisors to research and analyze the small business capital ecosystem in the Fresno area. The research team specializes in capital ecosystem analyses and community development finance. They have conducted ecosystem analyses in markets across the country, including Boston, Detroit, Austin, New York, Indianapolis, Appalachia, and Rhode Island. These analyses have led to millions in philanthropic and impact investment contributions from foundations, banks, corporates, government agencies, and others. Additionally, the analyses have led to powerful ecosystem building initiatives that have increased communication, coordination, and impact.
- The remainder of this document summarizes the project methodology and key findings. CVCF and APC hope that this information can serve as a catalyst for solutions development and funding to improve the Fresno small business capital ecosystem.

Acknowledgements

We would like to thank the following individuals who contributed their perspectives to this project.

- Frank Gallegos, CenCal
- Adriana Eiriz, Accion Opportunity Fund
- Penny Garton, CDC Small Business Finance
- Dawn Golik, Small Business Administration
- Todd Cooley, Self-Help FCU
- Dora Westerlund, Fresno Area Hispanic Foundation
- Tate Hill, Access Plus Capital

Project Methodology

	1) Small Business Lending Market Analysis	2) Small Business Unmet Demand Estimate	3) Ecosystem Stakeholder Interviews	4) Synthesis & Presentation
Activities	Small business lending market analysis on the rate of lending to small businesses (including bank and CDFI lending) in Fresno County compared to the nation overall and comparative geographic regions.	Estimate the unmet demand for capital from small businesses in the target geographic area.	Interviews with key stakeholders in the Fresno small business financing ecosystem (banks, CDFIs, technical assistance providers, others).	Synthesize and present the methodology and key findings from Workstreams 1-3.
Guiding Questions	<ul style="list-style-type: none"> • What is the level of small business lending in Fresno County? • How does the level of small business lending compare to the national average and comparable geographies? • What trends exist in bank and CDFI small business lending in Fresno County? • What is the rate of lending to underserved small businesses? 	<ul style="list-style-type: none"> • What is the amount of unmet demand for capital from small businesses in the target geographic region? • What is the amount of unmet demand for capital from small historically underserved businesses? 	<ul style="list-style-type: none"> • What gaps and unmet needs do interviewees see in the small business lending market in Fresno County? • What barriers do interviewees perceive as preventing these gaps from being filled? • What do interviewees believe could help fill gaps in access to capital? 	<ul style="list-style-type: none"> • What are the most salient characteristics and trends of small business lending in the target geographic area? • What are the key gaps in access to capital, by type/amount of capital and demographic group? • What are stakeholders' perspectives on strategies that would help to fill gaps identified?



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Key Definitions

Lending Data Definitions

	Source	Lenders Included
Bank Small Business Lending	Federal Financial Institutions Examination Council (FFIEC)	<ul style="list-style-type: none"> All banks with assets >\$1 billion
SBA 7a Program Partner Lending	Small Business Administration (SBA)	<ul style="list-style-type: none"> All SBA 7a Program participants, including sub-programs (e.g., notably Community Advantage) Includes banks, credit unions, CDFIs, and others
CDFI Small Business Lending	Community Development Financing Institutions (CDFI) Fund	<ul style="list-style-type: none"> All Treasury-certified CDFIs Includes certified nonprofit loan funds, credit unions, banks, and venture capital funds

Comparable Markets




County*	City	Population	% Black	% Hispanic	Poverty	Unemployment	Income
Fresno	Fresno	527,422	8%	48%	23%	4.1%	22,370
Sacramento	Sacramento	501,890	14%	28%	15%	8.0%	31,097
Bernalillo	Albuquerque	558,558	3%	48%	15%	6.3%	28,514
Erie	Buffalo	258,592	36%	11%	29%	7.6%	22,081
Shelby	Memphis	652,231	64%	7%	24%	9.3%	23,870

*County level data used throughout analysis. References to cities throughout this presentation refer to their surrounding county for convenience given general familiarity with the cities.

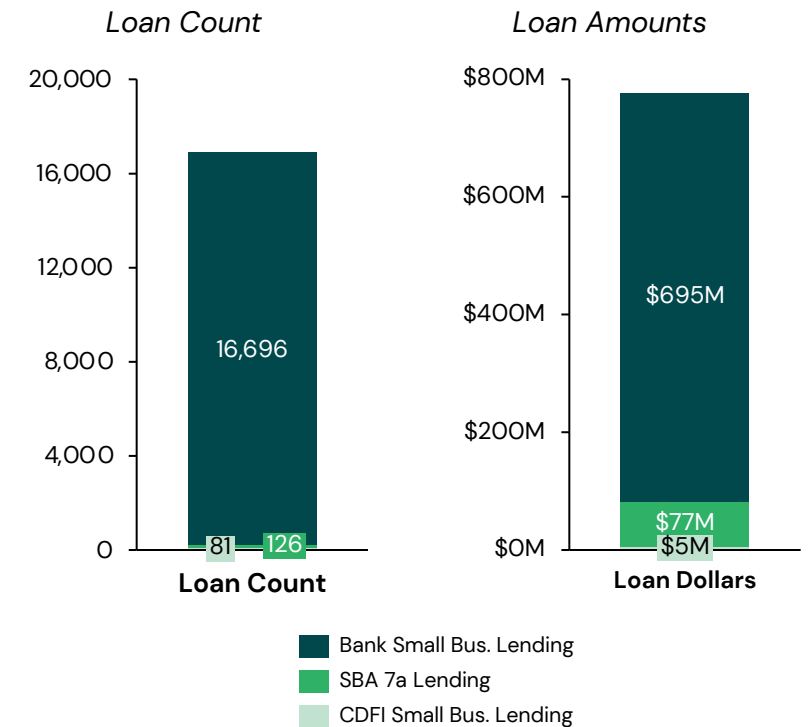


Fresno Small Business Lending Market Snapshot

Small business lending in Fresno County totals at least approximately \$775 million annually and ranks below comparable markets and national averages for bank and SBA lending but above most comparable markets and the national average for CDFI lending.

	Fresno Lending	Fresno Comp. Market Ranking
 Bank Small Business Lending (2016-2020)	<ul style="list-style-type: none"> • 83k loans (~17k per year) • \$3.5B (\$695M per year) • \$41k average loan amount 	<ul style="list-style-type: none"> • 3rd among comp. markets for loans per capita (8.4 per 100 residents) and -25% less than national average • 4th among comp. markets for loan dollars per capita (\$351 per resident) and -23% less than national average
 SBA 7a Program Partner Lending (2016-2020)	<ul style="list-style-type: none"> • 628 loans (~126 per year) • \$384M (\$76.8M per year) • \$611k average loan amount 	<ul style="list-style-type: none"> • 4th among comp. markets for loans per capita (6.3 per 10k residents) and -25% less than national average • 2nd among comp. markets for loan dollars per capita (\$388 per resident) and 5% more than national average
 CDFI Small Business Lending (2013-2017)	<ul style="list-style-type: none"> • 400 loans (~81 per year) • \$26.2M (\$5.2M per year) • \$65k average loan amount 	<ul style="list-style-type: none"> • 2nd among comp. markets for loans per capita (41 per 100k residents) and 67% more than national average • 2nd among comp. markets for loan dollars per capita (\$26 per resident) and 27% more than national average

Estimated Annual Fresno County Small Business Lending by Lender Type**



*Small business financing from most FinTech companies and smaller banks and credit unions is not included in the figures presented. There is a small amount of lending that is double counted because it is captured in multiple data sources (e.g., SBA 7a lending that is also reported in CRA data; CDFI lending data that is also reported in SBA data)

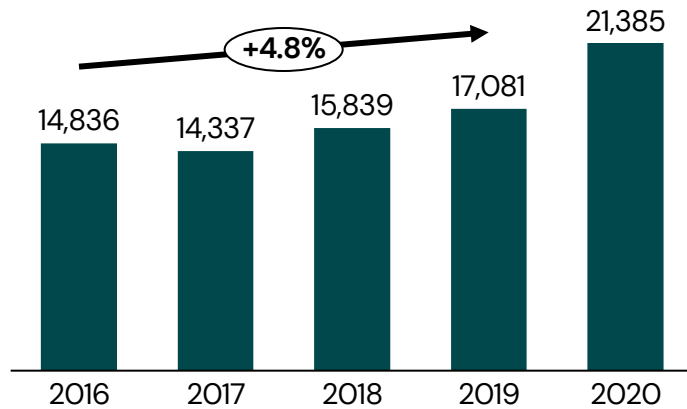
**Bank and SBA 7a lending includes lending from 2016-2020; CDFI lending includes lending from 2013-2017.

Fresno Bank Lending | Market Snapshot

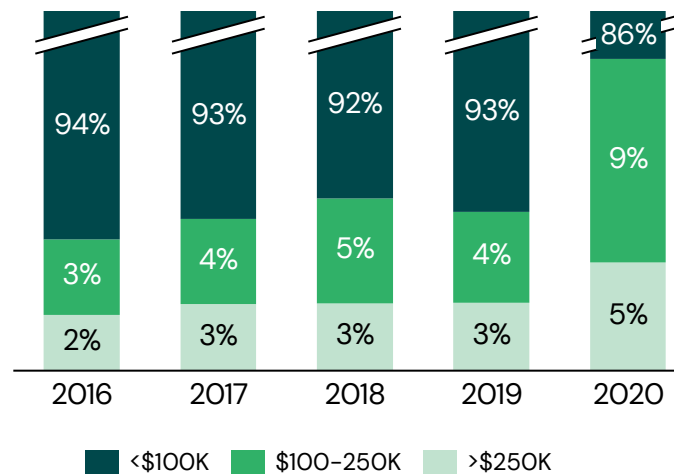


- Banks made 83.5k small business loans in Fresno County from 2016 to 2020, approximately **16.7k loans annually**
 - Originations grew at a 9.6% annualized rate from 2016 to 2020
 - Originations **spiked in 2020 in part due to Paycheck Protection Program (PPP) loans**
- Fresno County bank small business loans averaged \$41,604 over this period and 93% of loans were less than \$100,000
 - The average loan size in 2020 (\$57k) jumped due to PPP; the average loan size from 2016–2019 was \$36k
- **Approximately a quarter (27%) of Fresno bank lending went to low to moderate income neighborhoods from 2016–2020**

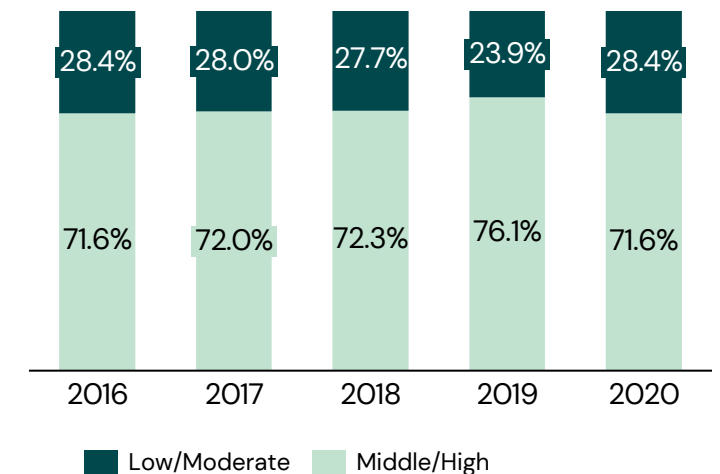
Bank Small Bus. Lending by Loan Count



Bank Small Bus. Lending by Loan Amount



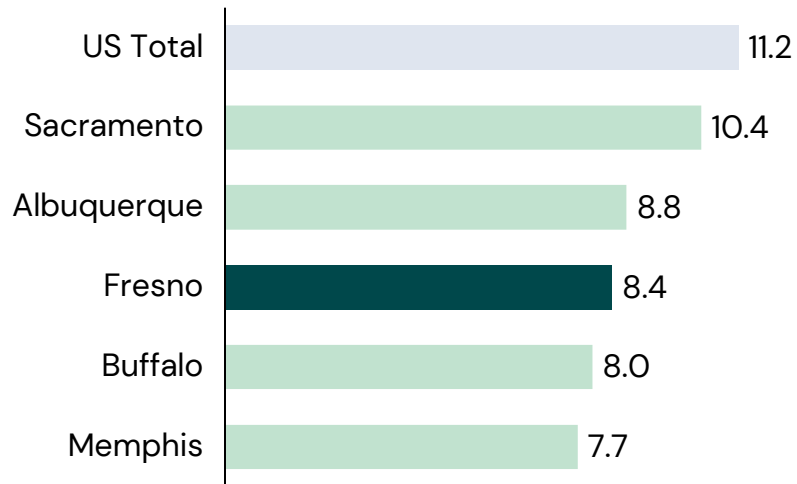
Bank Small Bus. Lending by Income



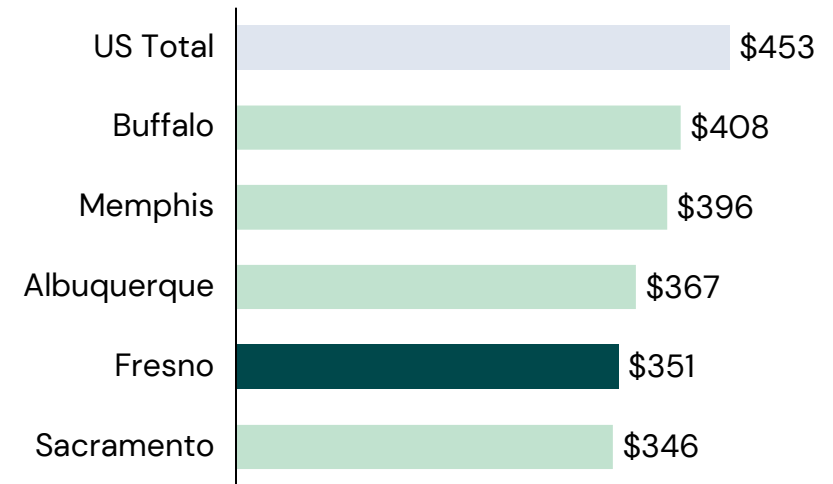
Bank Lending Comp. Region | Per Capita Analysis

- Fresno County bank small business **loan dollars per capita ranked 4 out of 5 and 25% below the national average**, though all comparable markets ranked below the national average
 - Notably, Fresno and Sacramento showed similar performance and Fresno slightly outperformed Sacramento
- Fresno County bank small business loans per capita showed slightly better performance, ranking 3 of 5 among comparable markets

Small Business Bank Lending per 100 Residents by Loan Count, 2016–2020



Small Business Bank Lending per Capita by Loan Dollar Amounts, 2016–2020

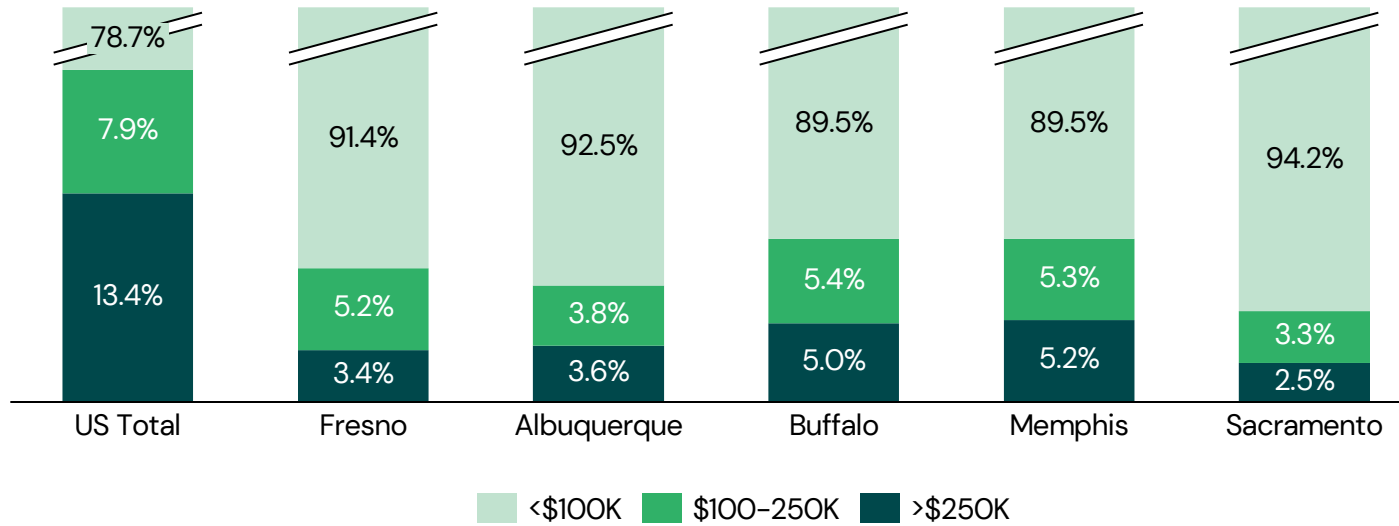


Bank Lending Comp. Region | Loan Size Analysis



- **Fresno County bank small business loans tend to be much smaller** than the national averages, with 91% of loans <\$100k (compared to 79% nationally)
- Fresno's bank small business loans were also **smaller than most comparable markets** – Fresno showed the 2nd largest portion of loans <\$250k (97%) and the 3rd largest portion of loans <\$100k (91%)

Small Business Bank Loans by Loan Amount by Loan Dollar Amounts, 2016–2020

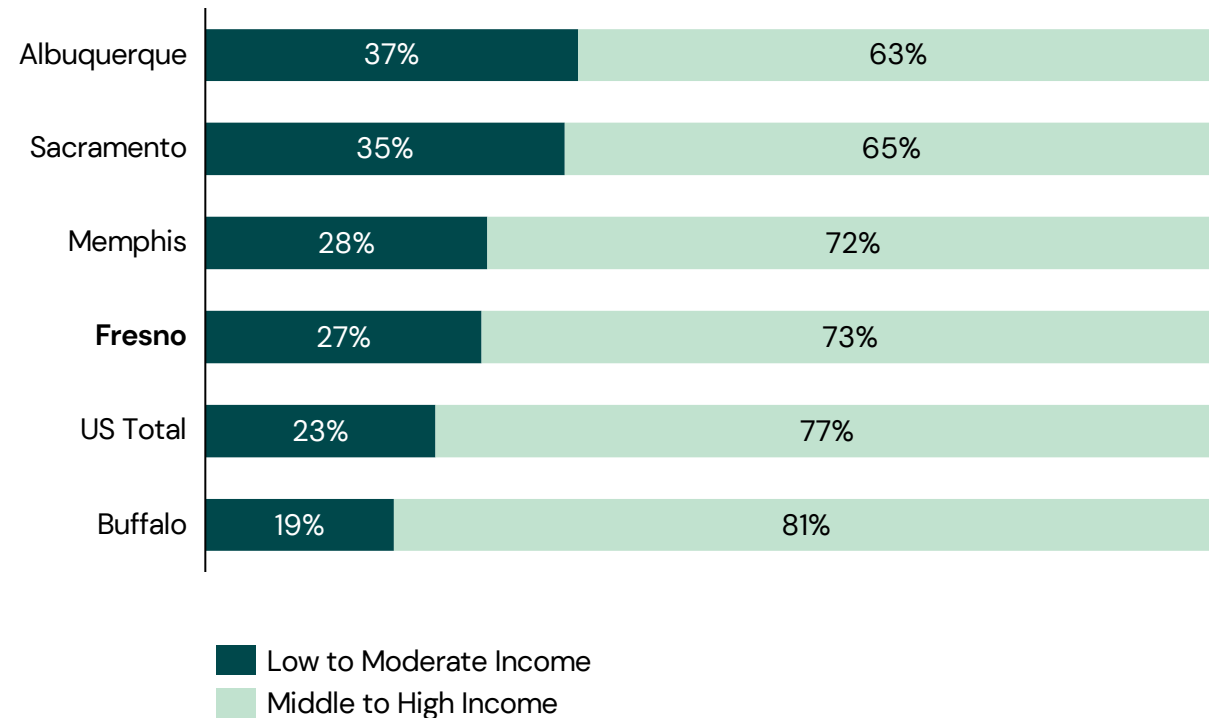


Bank Lending Comp. Region | LMI Lending



- 27% of Fresno County bank small business loans from 2016–2020 went to low-to-moderate income (LMI) areas (defined as <80% of area median income)
- Fresno ranked 4th among comparable markets for LMI area lending but slightly above the national average of 23%
- Only Buffalo (Erie County) ranked lower than Fresno County, at only 18% LMI area bank small business lending

Small Business Bank Loans in LMI Areas by Loan Count, 2016–2020

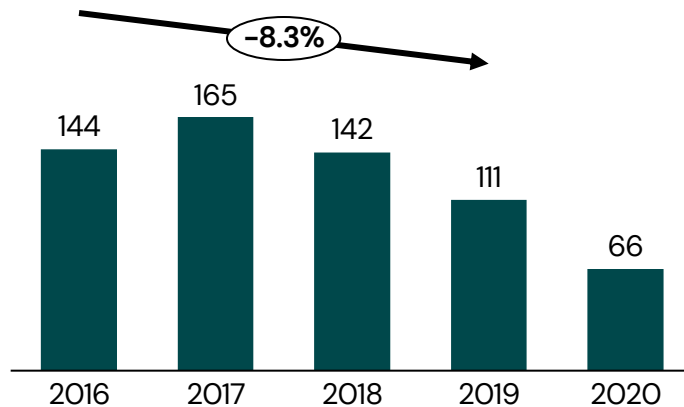


Fresno SBA 7a Lending | Market Snapshot

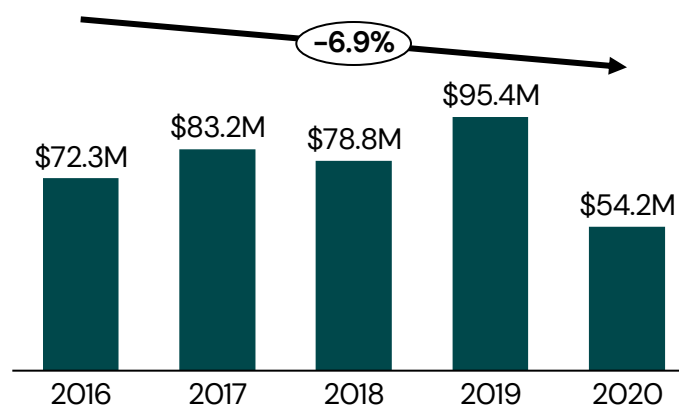


- SBA Partners made 628 SBA 7a loans in Fresno County from 2016 to 2020, **approximately 126 loans annually; originations declined at an -18% annualized rate from 2016 to 2020**
- These loans totaled \$384 million and total loan amounts declined over the same period by an annualized rate of -7%
- Fresno SBA 7a loans averaged \$611k over this period and 19% of loans were less than \$100,000 over the 5-year period

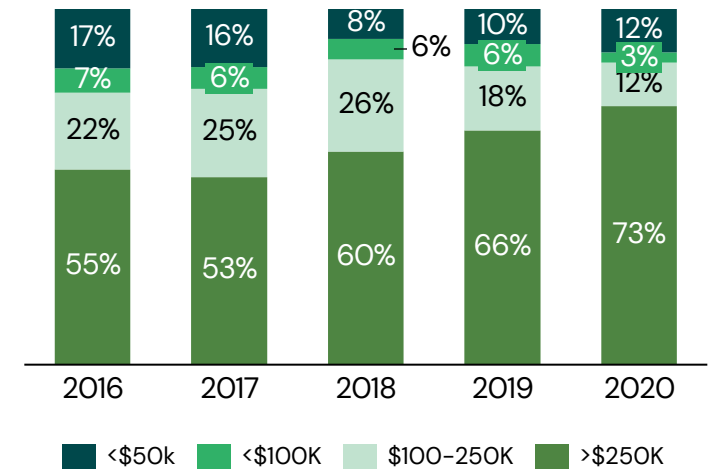
SBA 7a Lending by Loan Count



SBA 7a Lending by Loan Amounts



SBA 7a Lending by Loan Amount

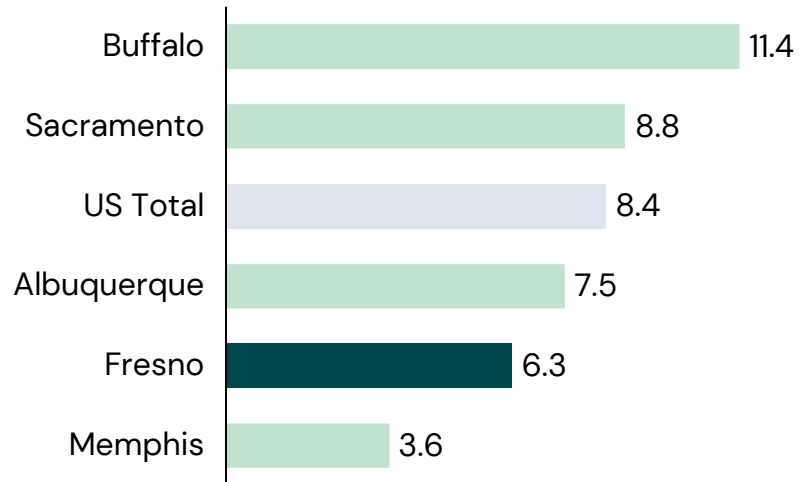


SBA 7a Comp. Region | Per Capita Analysis

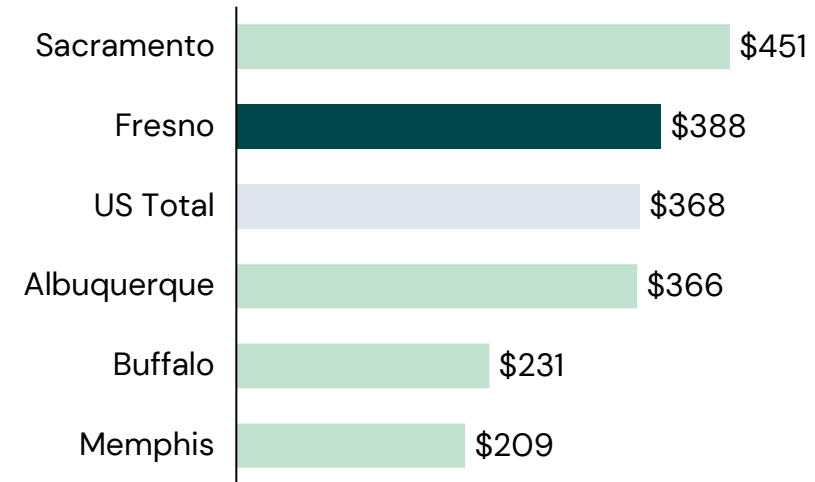


- Fresno County 7a loans per capita ranked 4th out of 5 among comparable markets, above only Memphis, and -25% below the national average
- Fresno County 7a loan dollars per capita (\$388) ranked 2nd out of 5 and 5% above the national average (\$368) and all comparable markets except Sacramento ranked below the national average
- This divergence in rankings is a result of the higher average loan amounts in Fresno County (\$611k compared to the national average of \$434k)

Small Business Bank Lending per 10,000 Residents by Loan Count, 2016–2020



Small Business Bank Lending per Capita by Loan Dollar Amounts, 2016–2020



PPP Lending | Overview & Per Capita Analysis

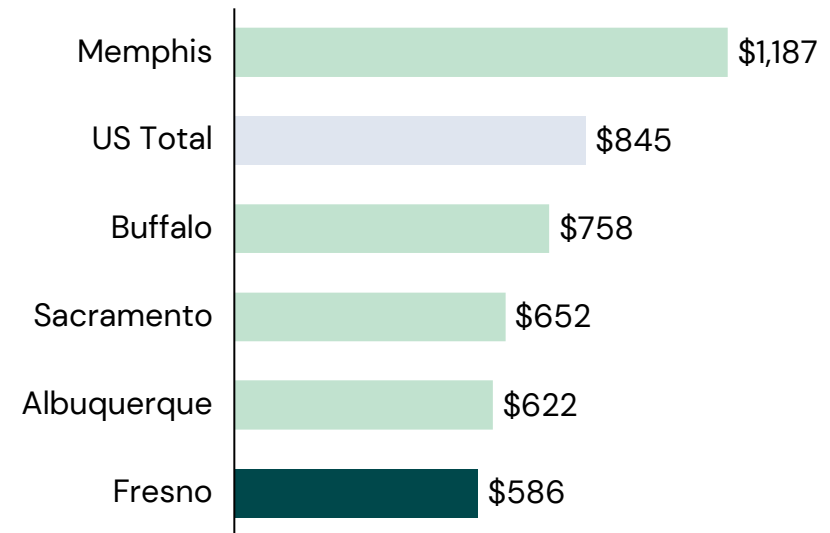


- Fresno County small businesses received a total of **\$585 million in Paycheck Protection Program (PPP) loans*** and \$586 per capita, approximately **30% lower than the national per capita rate and the lowest among comparable markets**

PPP Program Overview

- The Paycheck Protection Program (PPP) is a \$953-billion business loan program established by the 2020 Coronavirus Aid, Relief, and Economic Security Act (CARES Act).
- The PPP is administered by the U.S. Small Business Administration (SBA) and private lenders partnered with the SBA (primarily banks, some CDFIs) issued the loans.
- The PPP was aimed at helping certain businesses, self-employed workers, sole proprietors, and certain nonprofit organizations continue paying their workers.
- PPP offered low-interest, forgivable loans of up to 2.5x applicants' monthly payroll costs. Loan proceeds could be used to cover payroll costs, rent, interest, and utilities.
- PPP loans may be partially or fully forgiven if the business keeps its employee counts and employee wages stable.
- The PPP was open from April 2020 to March 2021.

PPP Lending per Capita by Loan Dollar Amounts, 2020-2021

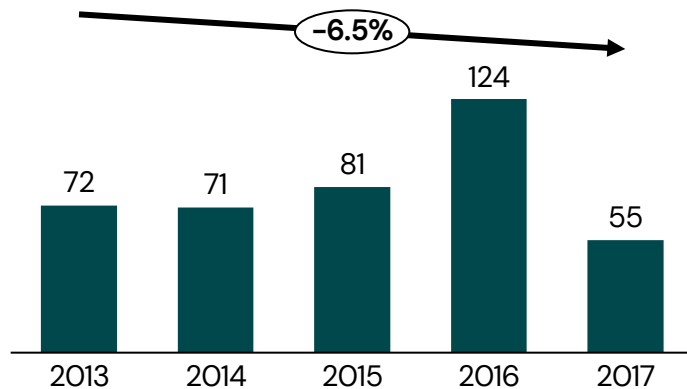


Fresno CDFI Lending | Market Snapshot

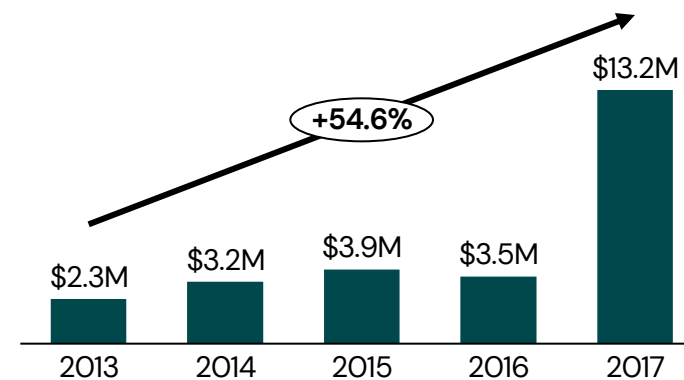


- CDFIs originated 403 small business loans in Fresno County from 2013 to 2017, **approximately 81 loans annually**
- The **trend in originations has been inconsistent**, with a 6.5% annualized decline over the 5-year period but an increase in 2015 and a sharp spike in 2016
- Fresno County had **11 active CDFIs during this period, but 94% of loans came from 2 CDFIs**
- CDFIs originated \$26.2 million small business loans in Fresno County from 2013 to 2017, **approximately \$5.2 million annually**
- The trend in originations has been inconsistent, with a 55% annualized increase over the 5-year period driven by a spike in 2017 driven by two larger (\$1.7 million each) loans from a relatively inactive CDFI

CDFI Small Business Lending by Loan Count



CDFI Small Business Lending by Loan Amounts

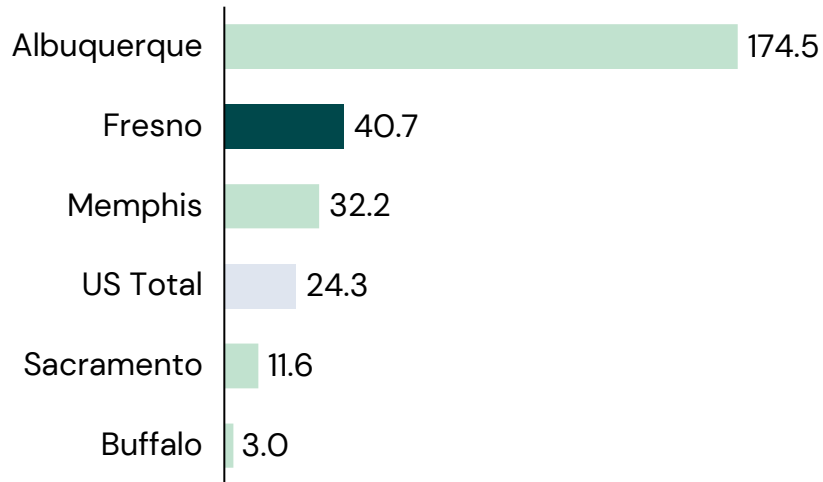


CDFI Lending Comp. Region | Per Capita Analysis

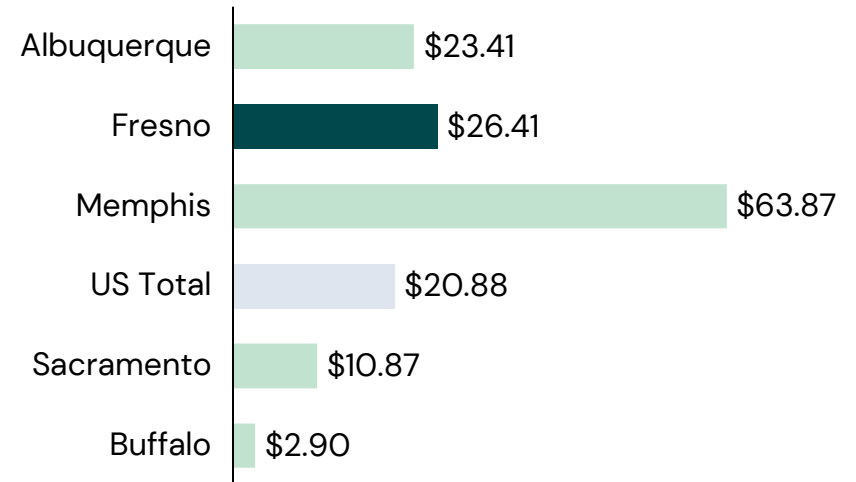


- Fresno County ranked **2nd among comparable markets for loans per capita** from 2013–2017 (41 per 100k residents) and **67% more than national average** of 24 per 100k residents
- Fresno County ranked **2nd among comparable markets for loan dollars per** from 2013–2017 (\$26 per resident) and 27% more than national average of \$21 per resident

CDFI Small Business Lending per 100,000 Residents by Loan Count, 2016–2020



CDFI Small Business Lending per Capita by Loan Dollar Amounts, 2016–2020

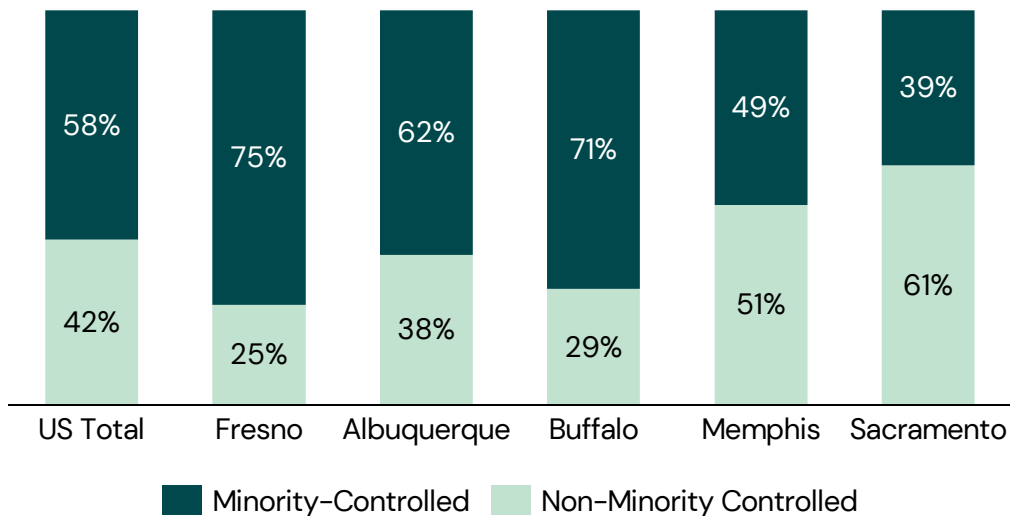


CDFI Lending Comp. Region | Race & Income

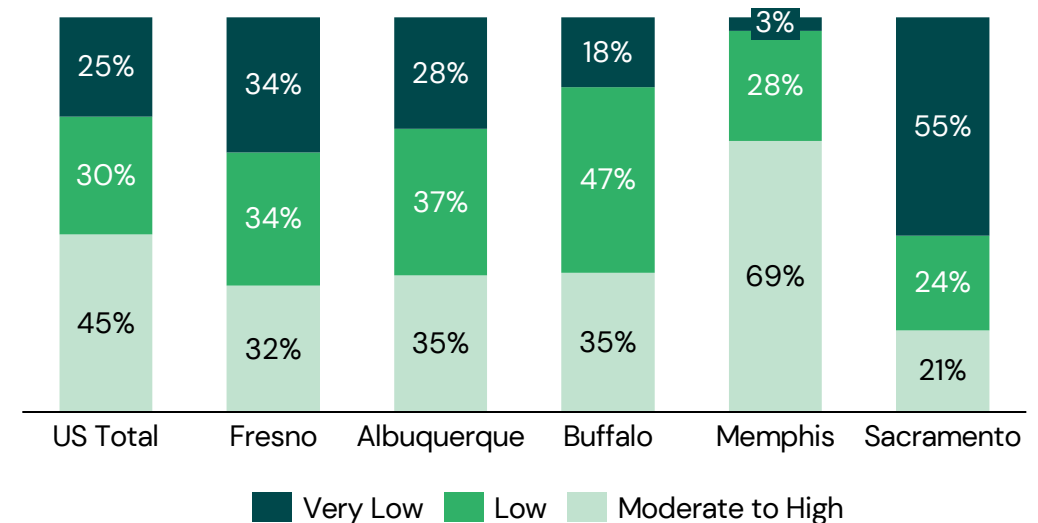


- Fresno County CDFI small business loans were made **disproportionately to racial and ethnic minorities** (75%) compared to the national CDFI average (58%) and comparable markets (ranged from 39% to 71%)
- Fresno County CDFI small business loans were made **disproportionately to very or low-income borrowers** (68%) compared to the national CDFI average (55%) and most comparable markets (only Sacramento County had a greater portion of very or low income at 79%)

CDFI Small Business Loans by Count by Race/Ethnicity of Owner(s), 2013-2017



CDFI Small Business Loans by Loan Amount by Loan Dollar Amounts, 2016-2020



Fresno Unmet Financing Demand

There is at least **\$3 billion of unmet financing demand annually from small businesses in Fresno County**, including \$1.3 billion in unmet demand from financing applications and \$1.6 billion in latent demand from those that have financing needs but were discouraged, viewed the cost of capital to be too high, or found the search too difficult

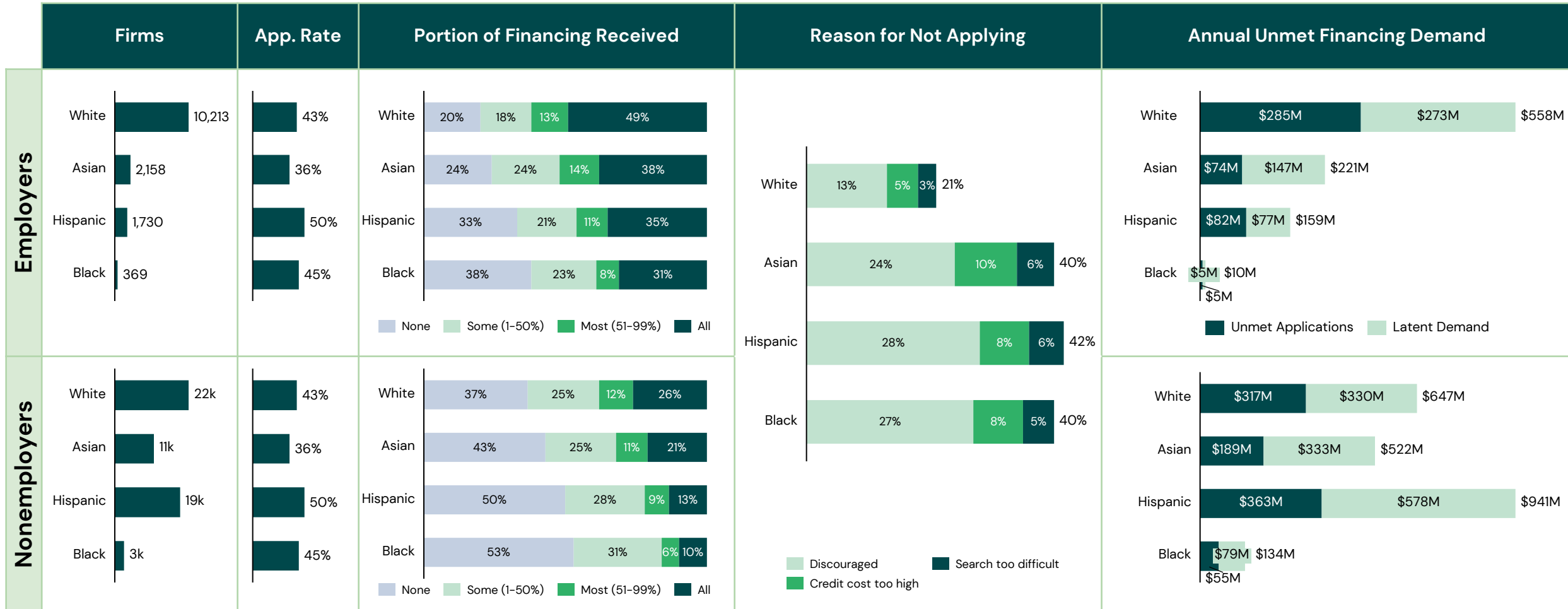
	Firms	App. Rate	Financing Amount Sought	Portion of Financing Received	Reason for Not Applying	Annual Unmet Financing Demand
Employers	14,063	43%	<ul style="list-style-type: none"> Less than \$25K \$25K-\$100K \$100K-\$250K \$250K-\$1M More than \$1M 	<ul style="list-style-type: none"> None Some (1-50%) Most (51-99%) All 	<ul style="list-style-type: none"> Discouraged Credit cost too high Search too difficult Sufficient financing Debt averse Other 	<p>\$947M</p> <ul style="list-style-type: none"> Unmet Applications Latent Demand
Nonemployers	56,100	29%	<ul style="list-style-type: none"> Less than \$25K \$25K-\$100K \$100K-\$250K \$250K-\$1M More than \$1M 	<ul style="list-style-type: none"> None Some (1-50%) Most (51-99%) All 	<ul style="list-style-type: none"> Discouraged Credit cost too high Search too difficult Sufficient financing Debt averse Other 	<p>\$2B</p> <ul style="list-style-type: none"> Unmet Applications Latent Demand



Sources: Federal Reserve Small Business Credit Survey (2018 and 2021); Census Bureau Annual Business Survey (2018).

Fresno Unmet Financing Demand | Race & Ethnicity

BIPOC-owned small businesses in Fresno County apply for financing at greater rates (except Asian), receive less of the financing that they apply for, and have much greater rates of latent financing demand



Fresno Unmet Financing Demand | Race & Ethnicity

- Given the greater rates of unmet applications and latent demand, unmet financing demand per firm is greater for entrepreneurs of color (\$50-\$55k per firm) compared to their white counterparts (\$47k per firm)
- Unmet demand per firm from entrepreneurs of color overall is 30-44% greater than their white-owned counterparts

Fresno County Unmet Small Business Financing Demand Per Firm by Race/Ethnicity

	Employer Firms			Non-Employer Firms			All Firms		
	Unmet Applications	Latent Demand	Total Unmet Demand	Unmet Applications	Latent Demand	Total Unmet Demand	Unmet Applications	Latent Demand	Total Unmet Demand
Black	\$ 26,452	\$ 26,125	\$ 52,577	\$ 20,461	\$ 29,252	\$ 49,713	\$ 21,181	\$ 28,876	\$ 50,057
Hispanic	\$ 47,344	\$ 44,736	\$ 92,080	\$ 19,117	\$ 30,422	\$ 49,539	\$ 21,472	\$ 31,617	\$ 53,089
Asian	\$ 35,203	\$ 69,536	\$ 104,739	\$ 16,578	\$ 29,252	\$ 45,830	\$ 19,542	\$ 35,663	\$ 55,205
White	\$ 28,494	\$ 27,351	\$ 55,845	\$ 14,727	\$ 15,357	\$ 30,084	\$ 19,160	\$ 19,220	\$ 38,380
Total	\$ 31,884	\$ 35,901	\$ 67,784	\$ 16,924	\$ 24,188	\$ 41,112	\$ 20,019	\$ 26,597	\$ 46,616

Fresno County Unmet Small Business Financing Demand - Percent of White-owned Firm Demand per Firm

	Employer Firms			Non-Employer Firms			All Firms		
	Unmet Applications	Latent Demand	Total Unmet Demand	Unmet Applications	Latent Demand	Total Unmet Demand	Unmet Applications	Latent Demand	Total Unmet Demand
Black	93%	96%	94%	139%	190%	165%	111%	150%	130%
Hispanic	166%	164%	165%	130%	198%	165%	112%	164%	138%
Asian	124%	254%	188%	113%	190%	152%	102%	186%	144%
White	100%	100%	100%	100%	100%	100%	100%	100%	100%



Interview Themes – Barriers & Gaps

- Poor financial health and readiness (e.g., business plan, financial statements/projections) among entrepreneurs and small businesses and especially entrepreneurs of color
 - Many businesses do not have consistent payroll or bookkeeping, and many businesses are cash based and do not have financial records, both of which limit capital providers' ability to evaluate business performance to lend or invest (and are big barriers to accessing government programs given record requirements)
 - Many businesses – particularly smaller businesses e.g., sole pops – aren't profitable and don't have a path to repaying debt
 - Many businesses have low personal credit (and business credit if they have any)
 - While these issues existed pre-COVID, COVID impacts have exacerbated them
- Language and cultural barriers prevent access to financings and non-financing support services
- Limited financing solutions for businesses that are not bankable
 - Most nonprofit capital providers only (or predominantly deploy) term loans
 - While these loans have greater accessibility (alternative underwriting) and flexibility (longer terms), they don't meet many needs that small businesses have (e.g., short-term working capital financing, patient growth capital without immediate P&I repayment, owner-occupied real estate financing)
- Low levels of awareness of nonprofit capital provider financing offerings, among the entrepreneurial community and nonprofit capital provider ecosystem

"A lot of the underlying issues trace back to economic inequality and wealth gaps, especially for communities of color"

"Many lenders require a ~30% cash investment by the entrepreneur which just isn't possible for many"

"Many smaller businesses in our region aren't profitable... which makes it difficult to assess ability to repay. And we're way more flexible than the banks"

"Cash management a big issue for smaller growing companies. A lot of businesses don't have the depository history to get lines of credit. Even if they could qualify, small lines of credit aren't attractive to banks. And CDFIs don't offer similar products"

"Most banks don't have Spanish-speaking loan officers"

Interview Themes – Opportunities & Solutions

- Market nonprofit mission-driven financing institutions and their offerings
 - Many acknowledge that Funding Fresno is a good idea that needs more promotion and ecosystem support (several noted competition from and confusion about the difference between Funding Fresno and the SBA's Lender Match platform)
 - Institutionalize bank-to-CDFI referrals; consider technology solutions to streamline (link to Funding Fresno?)
- Establish and/or grow culturally responsive entrepreneurial education, training, and technical assistance programs
 - Establish more regular BSO and mission-driven financing institution convening to build relationships and product/service knowledge to encourage end-to-end programmatic design and referrals
- Design or expand innovative financing solutions to better meet the unique needs of small businesses and EoC, specifically
 - Credit building loan products to improve financial health to access nonprofit capital providers and potentially mainstream financial products
 - Flexible debt solutions for working capital (e.g., lines of credit, invoice factoring)
 - Patient equity or equity-like solutions (e.g., convertibles with structured exits) for idea- and early-stage startups and establish businesses (especially outside tech)
 - Sector-specific products (e.g., ag, hospitality, real estate development, trucking)
 - Accion Opportunity Fund's trucking loan program is a high-volume success story of such innovation
- Secure flexible funding to support program and financing product innovations and scaling

"So many businesses have no idea that we [CDFIs] exist. They go to their bank, get turned down, and that's typically it"

"Every time we start to get strong referrals coming from a bank, the loan officer leaves and we have to start over again"

"We need more investment in educational programs and assets building programs"

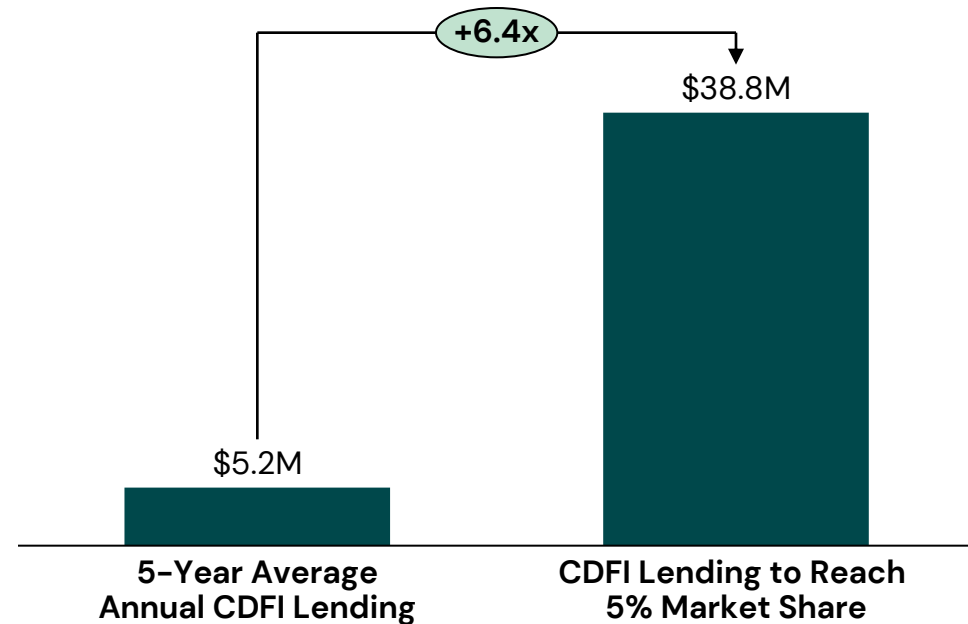
"We need more conversations among local stakeholders, organizations, and community leaders on how to strategize to bring real solutions."

"Funding Fresno could be good but it totally remains to be seen. We're a participating lender and we weren't even made aware when it went live... I haven't seen any marketing of it"

Opportunity: Scale Fresno CDFI Lending

- Increasing CDFI lending to small businesses in Fresno County can help to reduce the rates of unmet financing demand
- Recent Fresno County CDFI small business loans were made disproportionately to racial and ethnic minorities (75%), which is where the rates of unmet small business financing demand are highest in Fresno County
- However, annual CDFI lending to small businesses in Fresno County (\$5M on average) represents approximately 0.67% of the total small business lending in Fresno County, a very small market share
- For CDFI lending to small businesses in Fresno County were to scale to just 5% of the small business lending market, it would need to grow 6.4x to reach approximately \$40 million annually
- Growing Fresno CDFI small business lending will require multiple forms of investment in local CDFIs, including
 - Grants or low-interest loans for loan capital
 - Grants for operating support, including lending operations, technical assistance, and other needs

Fresno County CDFI Lending to Small Businesses



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Ecosystem Leader Panel

— Moderator —

Panelists



Jason Friedman

Friedman Associates



Penny Garton

CDC Small Business
Finance



Dr. Cassandra Little

Fresno Metro Black
Chamber of
Commerce



Ana Medina

Wells Fargo



Elliott Balch

Central Valley
Community
Foundation

Agenda

- 12:00–12:10 | Overview of Project Context & Methodology
- 12:10–12:35 | Presentation of Key Findings
- 12:35–12:50 | Q&A
- 12:50–1:25 | Ecosystem Leader Discussions Panel
- **1:25–1:50 | Breakout Discussions**
- 1:50–2:00 | Wrap Up

Breakout Discussion Questions

1. What stood out to you the most from the findings presented (good, bad, or open questions)?
2. What actions do you think can help to increase capital access for underserved small businesses in Fresno?
3. How can stakeholders work across sectors on the actions identified?

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