Borrowing Needs of Black Owned Business

A Bay Area Organization of Black Owned Businesses Report commissioned by Friends of the Public Bank East Bay
Oakland, CA

December 2021
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About Us

Friends of the Public Bank East Bay

www.publicbankeastbay.org
Friends of the Public Bank East Bay is a grassroots organization working to establish a public bank in the East Bay region of California, under the California Public Banking Act of 2019.

Bay Area Organization of Black Owned Business

www.baobobdirectory.com
BAOBOB is committed to advancing economic empowerment within the Black business community across the Bay Area.
DESCRIPTION

The purpose of the survey is to more deeply understand the current needs and existing conditions Black business owners experience when seeking to obtain loans and/or other means of acquiring funds needed to run and grow their business..

The Survey centered on 11 questions (8 choice, 3 narrative) drafted by FPBEB and edited in collaboration with BAOBOB. To encourage depth and honesty, responses were collected anonymously. The survey questions sought detailed information related to business status, borrowing history and personal credit score. Though participation is anonymous, the questions are specific within a range and ask for sensitive information, and called for careful vetting in terms of outreach. Additionally, the survey was administered over two weeks which included the Thanksgiving holiday.

This report explains the survey development and implementation processes and highlights key observations from the survey response data set. The last section of the report offers our analysis and recommendations for considerations as the Public Bank East Bay evolves into the equitable financial institution it promises to be.
PREPARATION

Our operations team set up the systems necessary for capturing online survey responses. Project management software was used to automate the dataflow from invitation to completed survey submission. This automation ensured multi channel engagement with respondents via:

- **Landing Page** - A dedicated landing page was designed to help promote the campaign and to also give more information on how the community can participate in the campaign.
- **Customized Form** - A customized form was designed to capture the needed information to gather the required data. The form was linked to the landing page. Each participant was able to complete the form anonymously as needed.
- **Unity Card gratitude for interviewees**
- **Confirmation Page**

Channel Engagement

- Highlighted PBEB in BAOBOB’s Winter Newsletter (11/15)
- Dedicated FB and IG posts (11/19)
- Direct Email to vetted contact list (11/22)
- Pacific Community Ventures community partner connection. Approx 90 add’l surveys sent to their network
- Phone outreach (11/26)
IMPLEMENTATION

As an organization dedicated to optimizing and multiplying opportunities for growth in the Black economy specifically, BAOBOB accepted the commission to conduct the survey as a way to ensure equity and accountability in how the voice of Black business is presented in the development of the Public Bank East Bay. For a true picture of the borrowing landscape for Bay Area Black business owners, it's important to assess both the supply (lenders) and the demand (borrowers). This project relied on a vetted list of BAOBOB network businesses and provides specific insight into their experience as borrowers.

Even a short survey call can be a nuisance to a busy business owner if its not scheduled in advance. We employed a multi channel campaign to introduce the public bank, it's values, mission and benefits before reaching out to schedule 1:1 interview conversations.

When we were able to conduct the interview, it was important to establish connection before introducing the ask and then allowing time to answer questions about the survey before actually beginning the survey. Invariably, these conversations added depth and context to the response.
STATS

- 19 completed surveys
  - 7 phone interviews
  - 12 online form
- avg hourly survey ratio 1:2.3
- 60 calls total
- 37% of submitted responses obtained via interview
- Total Implementation time: 11/26 - 12/15 (14 business days)
OBSERVATIONS

Surveyed business locations are spread evenly across four zip codes representing a broad cross section of East Oakland, Emeryville, Downtown Oakland and West Berkeley. (One respondent is headquartered in southern California but conducting business primarily in the Bay Area.)

The majority of surveyed businesses (58%) qualify as micro business, having fewer than 9 employees and annual revenues below $75k. An even larger majority (68.5%) of surveyed businesses report a debt-to-income ratio below 50%.

Observing the size, annual revenue and debt-to-income ratio data obtained in this survey, it follows that these businesses are not seeking to carry loans larger than their annual revenue. This may makes sense by the numbers but the problem is that very small loans (under $75K) are generally not available through traditional lenders because existing lending models deem loans of that size unprofitable.

Though most respondents reported a credit score above 600, the vast majority had not applied for a loan within the past 3 years. Presumably because there are few institutions that offer business loans in plausible amounts or realistic interest rates.
OBSERVATIONS (con’t.)

The survey results indicate that it would be a mistake to assume business owners are making comparative choices regarding when or whether to take out a business loan. The business owners we talked to had more borrowing experience with CDFIs (Runway, Pacific Community Ventures) than traditional banks. In fact, those who had borrowed, borrowed from a CDFI; none had received a traditional bank loan. Still, it's important to note that 100% of those who had taken loans said they prioritized ease of access over type of lender.

None expressed having factored in the decision between traditional bank vs. community bank vs credit union before taking a loan, nor had they felt encouraged to make those distinctions because ease of access was the primary factor. In conversation, respondents left open the potential for an improved experience based on a strong lender/borrower relationship, but their survey responses maintained that ease of access was their primary deciding factor. The survey shows that Bay Area Black business owners are more likely to borrow from mission based CDFIs because their products are more easily accessible and are better sized to fit micro business.

Further supporting the trend toward CDFI borrowing is a deficit of trust in banks and/or governmental institutions. This is a significant consideration as it speaks to fear of debt and a historically rooted anticipation of rejection. Survey respondents pointed to a perception that traditional lending institutions have consistently disregarded the needs of the Black community, so looking to them for a business loan is expected to be a source of rejection, insensitive treatment and bureaucratic run around. A perception confirmed by the lack of bank loan applications within this survey respondent pool.
OBSERVATIONS (con’t.)

Due to the Covid pandemic, many businesses had to close temporarily or pivot their business to participate in community support and/or government sponsored community contracts. Restaurants in particular reported being overwhelmed by a drastic increase in online business while attempting to maintain in-person service, especially as a result of staffing safety concerns and other shortages.

One respondent, however, reported that from their perspective, the early days of the pandemic actually leveled the playing field in a way, because of the universal uncertainty. Black owned businesses deal with uncertainty as a matter of course. The stimulus checks and Rebuild America government grants, were more readily available to businesses that ordinarily had difficulty acquiring funds. The respondent observed that, in spite of the pandemic, the stimulus checks were easier to obtain than a loan and that translated to positive effect for their business.
RECOMMENDATIONS

Lenders committed to serving the unique borrowing needs of Bay Area Black owned businesses are encouraged to glean these overarching recommendations:

**Cut The Tape**
- Offer quick, low interest loans with an easy and intuitive application process. Deprioritize credit checks as a qualifying criteria in favor of an applicant’s willingness to participate in credit rehabilitation. Minimize the time between application submission and loan fund date.

**Differentiate**
- Use mission-forward products such as small, easy access loans under $50K, client-dedicated loan counselors and dynamic, borrower-specific technical support to distinguish the offering from traditional lending products

**Be Transparent**
- This demonstrates trust and invites accountability. Effective lenders will want to be recognized for operating in alignment with their declared mission internally, in terms of staffing diversity and establishing standards of procedure. as well as with their public facing partnerships. To the extent that they are able effective lenders will curate their partnerships, investments, and other like engagements to align with their declared mission.

**Cultivate Sensitivity**
- The Black economy has a unique historical relationship with US financial institutions. Every aspect of that relationship shapes the Black business owners experience. Effective lenders will prioritize an appreciation of learning and open discussion on this topic specifically within their company culture. They will Invite organizational review and update regularly.
Appendix 1 - Charts

- Business info
- Borrowing History
- Personal Info
BUSINESS INFORMATION

**Business Zip Code**

- 94046: 5.0%
- 94065: 5.3%
- 94089: 15.8%
- 94601: 5.3%
- 94608: 21.1%
- 94610: 5.3%
- 94612: 21.1%

**How many years have you been in business?**

- 3-5 Years: 5.3%
- More than 5 Years: 94.7%
What Business Industry do you most identify with?

- Holistic Services: 5.3%
- Consulting: 5.3%
- Non-Profit: 15.8%
- Business Services: 10.5%
- Health & Wellness: 10.5%
- Sales: 15.6%
- Financial: 21.1%

What are you annual gross sales?

- $30,001-$75,000: 10.5%
- $50-$10,000: 5.3%
- $75,001 and Up: 42.1%
- $10,001-$30,000: 42.1%
What is your debt to income ratio?

- Less than 35%: 47.4%
- 35%-50%: 21.1%
- I have no clue: 31.6%
BORROWING HISTORY

Have you applied for a business loan in the last 3 years?
- Yes: 21.1%
- No: 78.9%

What loan terms were you looking for (loan term, interest rate, type of loan)? Please explain in detail.
- Low interest: 25.0%
- First time borrowing: 25.0%
- It had a low interest rate: 25.0%
- Line of credit: 25.0%
What is your personal credit score?

- Greater than 750: 15.8%
- 650-700: 10.5%
- 700-750: 20.3%
- I have no clue: 42.1%
- Less than 600: 5.3%
IMPORTANT LINKS

Survey Invitation
Survey Response Thank You
Survey Response Summary Spreadsheet

BAOBOB Winter Newsletter
BAOBOB Social Posts
Appendix 2 - Narrative Response

“What resources, other than finances, do you need more to grow and sustain your business? Please answer in detail”

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What resources, other than finances, do you need more to grow and sustain your business? Please answer in detail.

- Loans under $50K are not enough once you've gotten to a certain stage with your business, so larger loans are helpful. Debt refinancing is nice but the hope is that you don't need it.
- Experts in sales and marketing, including social media, and experts in web and instructional design.
- Employees
- General business support, technical support, debt averse. Uses Venmo, Cashapp, PayPal and Zelle
- Financial literacy support
- Secure, safe & easy access to online banking. Quick application and payment processes. One on one customer service through loan term. Streamlined reporting. Understanding of expenditures as it pertains to cultural customs. Trusted agreement process. Assistance with correspondence to third-party services/resources. Acting in service and providing alternative options where possible.
- Business education, resources and opportunities for developmental growth, marketing resources, streamlined system of quick follow-through with finalizing loan applications and funding. No strings or excessive oversight of loan expenditures. Quick and easy reporting methods. Understanding of financial priorities as it pertains to cultural customs. Trust within agreement processes. Assistance with correspondence to third-party ventures/services. One-on-one management and contact i.e. One rep assigned through-out the loan term unless officially handed over. Security and Ease of online access. Quick response.
What resources, other than finances, do you need more to grow and sustain your business? Please answer in detail.

- Overdraft protection/fee forgiveness. Access to different forms of Insurance opportunities. Also free unlimited access to bank statements for all time -in paper and digital formats.
- Security with authentication (online, branch, phone verification), Auto & house ins. & financing assistance, Free and easy access to bank records at all times that can be downloaded and imported on-demand. Access to Credit.
- Investment networking opportunities. Accommodations with bank service charges and overdraft protection.
- Consistent and dedicated customer service. Easy bill-pay features.
- Business training
- Marketing and making sure our institution more present to the public.
- short term loans with square... repay with income
- staff
- Marketing expertise
- Resources in the form of technology (computers, software, printers) is about it.
- Long term payback, flexibility. Dont want to have to match the loan. Terms are too micro-managed, would like less oversight with spending.
- Volunteers, Staffing and Payroll Resources
What resources, other than finances, do you need more to grow and sustain your business? Please answer in detail.

- More volunteers and staffing.
- More volunteers, and more sales to pay more staff.
- Received PPP more than one. Now trying for EIDL... 30 yr 3.5%... really flexible general fund.... everything but payroll... 2yr deferment found the govt extremely unorganized....
- Blacks don't know and don't receive funding due to racism and lack of financial knowledge that we lack... napr, forbearance, repayment financial planning, records, p&l, licensing, etc....
- Coming out from under the table is really cumbersome and expensive. Not common knowledge. Missed from the beginning... Life insurance....wealthbuilder grad school.... relationship with money. Assumed decline keeps us from applying. Before the pandemic - everything institutionally financial was not for us - pandemic leveled the playing field in unexpected ways.