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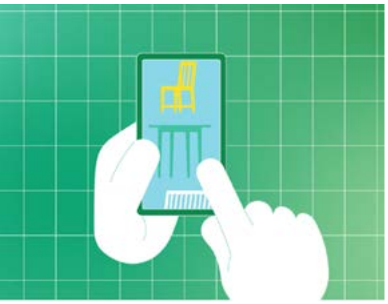


PROJECT DEEP

UNLOCKING POTENTIAL: FINANCING WOMEN-AND WOMEN-OF-COLOR-OWNED BUSINESSES IN UTAH

FEBRUARY 2024

EXECUTIVE SUMMARY

In 2023, Utah was ranked one of the top ten states for business for its skilled workforce, robust economy, and business-friendly environment. Despite this overall positive ranking, a recent study by Clarify Capital revealed that Utah ranks among the worst states for women-owned businesses.[1, 2] This evaluation accounts for factors such as the percentage of women-owned small businesses, gender pay gaps, female unemployment rates, the presence of women-owned businesses generating $1 million or more in annual revenue, and the density of women-owned companies per 10,000 residents in each state. This disparity highlights the need for targeted strategies to support the success and promote the growth of women-owned businesses in Utah, ensuring the state's business landscape is as inclusive as it is prosperous.

The JPMorgan Chase Foundation provided additional grant funding to the Sorenson Impact Institute (SII) in 2023 to continue the efforts of Project DEEP to disrupt the entrepreneurial ecosystem by supporting diverse entrepreneurs. This phase of Project DEEP sought to deepen our understanding of the challenges faced by women and women of color entrepreneurs in Utah. Building upon the growing body of national research addressing the challenges faced by underserved entrepreneurs, this report examines the role of financial institutions in Utah that provide financing to women and women of color entrepreneurs, focusing on two key dimensions:

- The characteristics of women and women of color-owned businesses in Utah
- The financing landscape in Utah for small businesses operating in underserved communities

This report is based on secondary research and analysis of data obtained from the U.S. Census Bureau Annual Business Survey and from primary interviews with financial institutions that target underserved entrepreneurs in Utah. The SII team identified financial institutions to interview based on whether they marketed their products or services to underserved populations. The selected financial institutions interviewed include a traditional bank offering a product targeting underserved populations; three Community Development Financial Institutions (CDFIs) specializing in lending to businesses in under-resourced communities; and a Certified Development Company (CDC) promoting economic development within its community by offering Small Business Administration (SBA) 504 loans. The primary objective of these interviews was to gain insights into how these financial institutions have effectively offered products and services to underserved entrepreneurs who have historically and contemporarily faced barriers to accessing capital from traditional lending institutions.

KEY FINDINGS

Women-owned businesses differ from men-owned businesses in several ways. In Utah, women-owned businesses tend to have a shorter operational history, employ fewer workers, and operate in slightly different industries than businesses owned by men. Moreover, the data reveals differences between businesses owned by women and those owned by women of color. Specifically, businesses owned by women of color are more likely to have a workforce exceeding five employees and a shorter business tenure than the broader category of women-owned businesses in Utah. Additionally, women of color-owned businesses tend to concentrate in slightly different industries than women-owned businesses in the state.

While financial institutions report separately data related to the gender and race of their clients, almost none report data on the number of women of color entrepreneurs they serve. Women entrepreneurs make up more than 50% of clients for many financial institutions and products designed for underserved entrepreneurs. Although most financial institutions offered information on the percentage of clients identified as women or people of color, none could provide details about the proportion identified specifically as women of color. This informational gap exists primarily because the data is not currently included in their reporting practices.

Financial institutions targeting underserved entrepreneurs employ methodologies that diverge from conventional banking practices. Financial institutions used alternative underwriting practices, including waiving requirements for two years of operating history and collateral and using a lower credit score threshold. The majority of these financial institutions also provided technical assistance to their clients, including financial education and business coaching; some institutions required this as a condition for receiving financing. Moreover, non-traditional financial institutions gauge success according to whether their clients transition away from their services, are able to establish relationships with traditional banks, and run successful businesses.

Demand for financing among underserved entrepreneurs significantly outpaces supply, particularly for those seeking midrange loans ($75K-$250K). While some financial institutions offered microloans below $50K and slightly larger loans between $50K and $75K, there were fewer options for entrepreneurs seeking loans between $75K and $250K. Most of the financial institutions interviewed, particularly CDFIs, are facing high demand for loans exceeding $75K. Institutions that did operate in this loan size range also had limited capacity to meet the demand.

RECOMMENDATIONS

The report makes several recommendations to help financial institutions improve their services for women and women of color entrepreneurs in Utah:

Recommendation 1: Provide financial resources to institutions serving underserved populations to support more comprehensive data management, analyses, and reporting

The lack of available data on financing for women of color entrepreneurs in Utah poses a significant challenge in accurately assessing the extent to which these entrepreneurs are being served by financial institutions. While most of the financial institutions interviewed were able to provide statistics on the share of their clients that were women and people of color, limited organizational capacity hindered their ability to provide information on the share of their clients that were women of color. To address this issue, these financial institutions would benefit from additional financial support dedicated to improved data management, analysis, and reporting.

Recommendation 2: Provide financial resources to institutions serving underserved populations to better market their products and services to businesses in these communities

All of the CDFIs interviewed expressed challenges in effectively communicating their mission, products, and services to businesses in communities that lack access to traditional financing. To address this, additional financial resources should be allocated to help these financial institutions improve their marketing efforts to raise awareness of their products and services, expand their reach and expand access to capital to more underserved entrepreneurs.

Recommendation 3: Create a dedicated growth loan product serving women and other underserved entrepreneurs seeking midrange loans ($75K to $250K)

While several financial institutions, particularly CDFIs, serve the lower market segment ($5K to $75K) with a variety of loan products, there are few financial institutions lending larger growth capital loans to underserved entrepreneurs of emerging small businesses. Creating a new, dedicated growth loan product would directly address the primary challenges faced by these entrepreneurs in accessing business loans from traditional financial institutions, including (i) the threshold of $250K loan size for accessing traditional bank financing and (ii) the requirement of two years of business operating history. This type of growth loan product would enable underserved entrepreneurs to access growth capital to scale their businesses beyond the start-up phase. Accessing this growth capital would strengthen these businesses, support revenue growth and expansion of a businesses' footprint and customer base, improve fiscal stability, and contribute to employment growth and opportunities for the communities they serve.

The research presented in this report underscores the need for targeted strategies and resources to enhance the effectiveness of financial institutions in catering to women and women of color entrepreneurs in Utah. The recommendations aim to address the identified gaps and support the growth and success of these businesses.

ABOUT PROJECT DEEP

Project DEEP (Developing Equitable Economies Program) is a Sorenson Impact Institute initiative that aims to change the status quo around entrepreneurship and investing by accelerating the growth of women and people of color entrepreneurs and equipping stakeholders with the knowledge to better support the success of diverse entrepreneurs. Project DEEP offers educational resources, research insights, and a supportive community to entrepreneurs, investors, students, and others motivated to learn about and re-tool the entrepreneurial ecosystem to be more effective, just, and equitable.

The first phase of Project DEEP, funded by the JPMorgan Chase Foundation and the Economic Development Administration (EDA), supported the initiative through the development of:

- **Technical assistance programs:** In 2022, Project DEEP partnered with two local community organizations - the Women's Business Center of Utah (WBCUtah) and New Pattern - to provide direct support to more than 60 Utah-based women entrepreneurs. This collaboration produced a specialized technical assistance program tailored for women solo entrepreneurs, named Minding My Own Business, which WBCUtah continues to deliver.

- **Educational resources:** Project DEEP developed a series of six masterclass-style video courses covering key topics in entrepreneurship, investing, and ecosystem-building, which it made available for free and on-demand through the Project DEEP website. As of December 2023, these courses have received over 900 enrollments.

ACKNOWLEDGEMENTS

Project DEEP is hosted by the Sorenson Impact Institute, based at the University of Utah's David Eccles School of Business. This research was generously funded by the JPMorgan Chase Foundation.

The Sorenson Impact Institute would like to thank representatives from B:Side, JPMorgan Chase, MoFi, Mountain West Small Business Finance, Suazo Business Center, Utah Microloan Fund, and Zions Bank for participating in interviews with the Project DEEP team. Their valuable insights played a crucial role in shaping the key findings and recommendations presented in this report.

INTRODUCTION

In 2023, Utah was ranked one of the top ten states for business for its skilled workforce, robust economy, and business-friendly environment. However, despite its overall positive ranking, a recent study by Clarify Capital revealed that Utah ranks among the worst states for women-owned businesses.[3, 4] This evaluation accounts for factors such as the percentage of women-owned small businesses, gender pay gaps, female unemployment rates, women-owned businesses generating $1 million or more in annual revenue, and the density of women-owned companies per 10,000 residents in each state. This disparity highlights the need for targeted strategies to support the success and promote the growth of women-owned businesses in Utah, ensuring the state's business landscape is as inclusive as it is prosperous.

Despite Utah's low ranking for women-owned businesses, women in Utah have made significant progress in starting their own businesses. Between 1997 and 2019, the number of women-owned businesses increased by 161% compared to the state average of 92% for all demographic groups.[5, 6] While improvements in the business environment have contributed to this progress, persistent inequities in Utah's private sector continue to affect the ability of women to start successful businesses.

Existing research on women entrepreneurs in Utah reveals numerous barriers that women face in operating and growing their businesses, including balancing home responsibilities, gender discrimination, insufficient business preparation, and access to capital.[7, 8] The Sorenson Impact Institute [2018 Landscape Report] highlighted a confluence of social and cultural factors that influence womens' entrepreneurship in Utah specifically. The state's business environment, which is shaped by the historical and contemporary influence of the Church of Jesus Christ of Latter-day Saints, often encourages women to prioritize family and domestic responsibilities. Furthermore, research indicates that women are more likely to set maximum business size thresholds that are typically smaller than those established by men. These thresholds reflect women entrepreneurs' perceived ability to retain control of their business, dedicate a reasonable amount of time and energy to their business, and maintain a work-life balance.[9] Together, these factors contribute to the presence of smaller, home-based businesses in Utah that allow women to balance their roles as mothers and professionals.[10]

Considerable attention and resources have been dedicated to providing technical assistance to women entrepreneurs, aimed at addressing barriers to business growth and success relating to insufficient business preparation. However, there has been comparatively less focus on addressing the challenges faced by financial institutions in Utah that serve to eliminate barriers to capital access faced by women, people of color, and other underserved entrepreneurs. This gap in addressing the financial needs of diverse entrepreneurs, especially women and people of color, underscores the importance of initiatives like Project DEEP, which aim to transform the entrepreneurial landscape by specifically focusing on these underrepresented groups.

The JPMorgan Chase Foundation provided additional grant funding to the Sorenson Impact Institute in 2023 to continue the efforts of Project DEEP to disrupt the entrepreneurial ecosystem by supporting diverse entrepreneurs. This phase of the project places a specific emphasis on deepening our understanding of the needs of women and women of color entrepreneurs in Utah. Building upon the growing body of national research addressing the challenges faced by underserved entrepreneurs, this report examines the role of financial institutions in Utah that provide financing to women and women of color, focusing on two key dimensions:

- The characteristics of women and women of color-owned businesses in Utah
- The financing landscape in Utah for small businesses operating in underserved communities

This report is based on secondary research and analysis of data obtained from the U.S. Census Bureau Annual Business Survey and from primary interviews with five financial institutions. The financial institutions interviewed range from small Community Development Financial Institutions (CDFIs) to large traditional banks, which serve underserved entrepreneurs in Utah. These interviews aimed to understand the capital needs, financing landscape, and barriers in accessing capital for women and women of color entrepreneurs in Utah.

CONTEXT - THE CURRENT BUSINESS ENVIRONMENT

Underrepresented business owners can be more vulnerable to challenges in the business environment, and emerging research indicates that women and people of color business owners were disproportionately impacted by COVID-19. For instance, the Small Business Administration (SBA) found that business owners of color experienced disproportionately larger earnings losses compared to white business owners. These disparities persist for Black business owners even after controlling for owner, business, and geographical characteristics.[11]

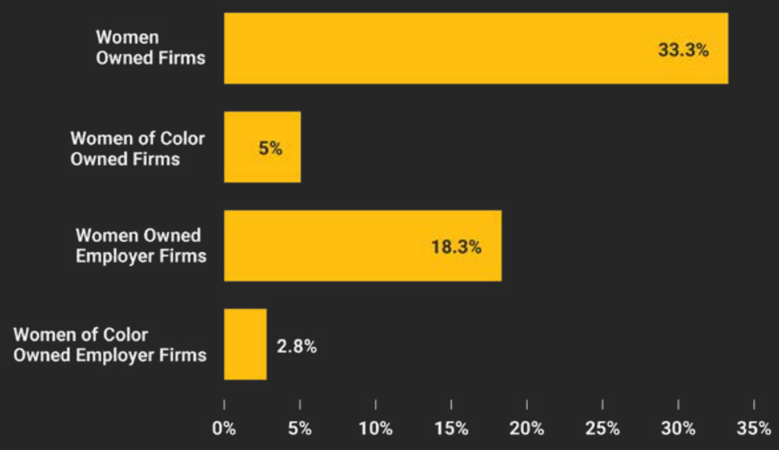
Furthermore, small businesses are navigating a complex business landscape. While the majority of businesses report feeling positive about the overall health of their business and anticipate increased revenue in the coming year[12], they continue to face external pressures. Although inflation has reduced from its peak of 9.1% in June 2022, it remains the top concern among business owners, irrespective of a business' region, number of employees, or sector.

In response to elevated inflation, the Federal Reserve has rapidly increased the Federal Funds interest rate from a historic low of 0.25% in March 2022 to 5.33% as of November 2023. This increase in borrowing costs for banks translates to higher commercial interest rates and financing costs for businesses, with a surge in borrowing costs for small businesses according to the most recent economic bulletin from the SBA. At the same time, banks have reported tightening lending standards and reduced demand for small business loans.[13] In this challenging business environment, support for underrepresented small business owners is more important than ever.

UTAH'S WOMEN ENTREPRENEURS: AN OVERVIEW

In 2021, Utah's business landscape was predominantly shaped by small businesses, which constituted 97% of Utah's total businesses, employing 47% of the state's workforce.[14, 15, 16] Despite this, women-owned businesses represented only 33.3% of all businesses in Utah[17] – a proportion lower than their share of the population. Moreover, a higher proportion of women-owned businesses (87.9%) were nonemployer firms - businesses without paid employees that are operated solely by the owner(s) – compared to just 75.0% of men-owned businesses. Only 18.3% of employer businesses - businesses with more than one paid employee other than the owner – are women-owned businesses, employing a total of 115,674 workers (see Figure 1). Men-owned businesses make up 60.7% of the total employer firms.[18]

FIGURE 1: Percent of Firms Overall and Employer Firms That are Women and Women of Color Owned



The figure utilizes 2019 (NESD), and 2021 (ABS) data which was the most recent data available that covers both employer and nonemployer business in Utah.

Source: U.S. Census Bureau. (2021). Annual Business Survey Company Summary 2021 [Dataset]. https://www.census.gov/data/tables/2021/econ/abs/2021-abs-company-summary.html

U.S. Census Bureau. (2019). Nonemployer Statistics by Demographic Tables [Dataset]. https://www.census.gov/programs-surveys/abs/data/nesd.html

Utah is the 34th most racially and ethnically diverse state in the nation, with 22% of the population identifying as something other than non-Hispanic White, compared to the 40% national average.[19] This below average diversity is reflected in Utah's business ownership. Minority-owned businesses make up 12.7% of all Utah businesses,[20, 21] with women of color-owned businesses representing only 5.1% of all businesses in Utah, representing less than half of their population share of 11.4% .The majority (87.8%) of women of color-owned businesses are nonemployer businesses. Only 2.8% of employer businesses are women of color-owned businesses, employing 13,684 workers.[22]

Additionally, of the businesses that employ workers, women-owned firms are also more likely to be smaller. Specifically, 69.6% of women-owned businesses employed fewer than 5 workers, compared to 65.5% of men-owned businesses (see Figure 2). Notably, 61.4% of women of color-owned employer businesses employ fewer than 5 employees, a smaller percentage than for women entrepreneurs as a whole.[23]

FIGURE 2: Firm Size by Gender and Minority Status of Business Owner

This figure includes data for employer firms only.
Source: U.S. Census Bureau. (2021). Annual Business Survey Company Summary 2021 [Dataset]. https://www.census.gov/data/tables/2021/econ/abs/2021-abs-company-summary.html

In their 'start up' years, businesses are focused purely on survival: establishing a business model, building a customer base, and generating sufficient revenue and profit to become financially viable. Only after a business has survived these initial obstacles can it focus on growth.[24] Doing so is a challenge, however, with 20% of small businesses failing within the first two years and half failing within the first five years.[25] These challenges are more pronounced for women-owned businesses, which are more likely to be in the early 'start up' stages than men-owned businesses. Data from 2021 reveals that 18.9% of all businesses owned by women and 27.4% of businesses owned by women of color had been in business for fewer than two years, compared to 17.3% of men-owned businesses (see Figure 3).

Businesses owned by men are more likely to survive beyond five years, with 58.5% having been in business for longer than five years compared to only 48.6% of women-owned businesses. Businesses owned by women of color saw even lower numbers, with only 42.9% in business for more than five years.

These findings are consistent with findings from national statistics that show that women, specifically Black women, are starting businesses at a higher rate than the national average, but are less likely to remain in operation four years later.[26] Taken together, this data shows that businesses owned by women and women of color are more likely to be in their nascent stages. Additionally, they face greater challenges in transitioning beyond the crucial first five years, compared to their male counterparts.

FIGURE 3: Age of Business by Gender and Minority Status

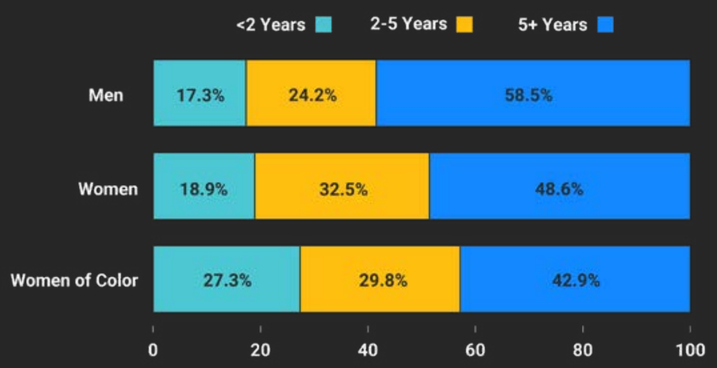


Figure only includes employer businesses. U.S. Census Bureau. (2021). Annual Business Survey Company Summary 2021 [Dataset]. https://www.census.gov/data/tables/2021/econ/abs/2021-abs-company-summary.html

In Utah, female and male entrepreneurs establish businesses in slightly different industries, with women overrepresented in certain sectors. As of 2019, the dominant industries for men-owned businesses were professional services (18.3%), construction (13.6%), and real estate (10.7%).[27] In comparison, the dominant industries for women-owned businesses were professional services (15.1%), other services (14.1%),[28] and retail trade (13.3%). Notably, women-owned businesses were overrepresented in administrative and support services, health care and social services, other services, and retail trade industries.

While women of color entrepreneurs in Utah share similar industry distributions with women overall, there are some notable differences. For instance, 15.0% of businesses owned by women of color are in administrative and support services, compared to only 8.9% of all women-owned businesses. Additionally, 11.9% of women of color-owned businesses are in professional services compared to 15.1% of all women-owned businesses. A larger share (17.6%) of women of color owned-businesses operate in other services, exceeding the 14.1% state average for women. While they make up only 5% of all businesses in the state, women of color entrepreneurs are overrepresented in administrative and support services (11.3%) and other services (10.5%). Table 1 in Appendix B provides the industry distributions and industry shares for women and women of color businesses.

In summary, women-owned businesses differ from men-owned businesses in several ways. Women-owned businesses in Utah tend to have shorter operational histories, employ fewer workers, and operate in different industries than men-owned businesses. Additionally, the data reveals differences between businesses owned by women and those owned by women of color. Specifically, businesses owned by women of color are more likely to have a workforce of more than five workers and to have a shorter business tenure than women-owned businesses overall in Utah. Additionally, women of color-owned businesses tend to concentrate in slightly different industries than women-owned businesses in the state.

Factors such as years in business, loan size, business revenue, operating expenses, and profit margins, all of which are influenced by the choice of industry, play an important role in banks' willingness to provide capital to a business. These findings help clarify why women, women of color, and men entrepreneurs experience different challenges in accessing capital, even when accounting for factors like financial literacy, mistrust of financial institutions, and business sophistication - all factors that have been attributed to the different outcomes experienced by women, women of color, and men entrepreneurs when accessing capital. Understanding the varied factors that influence banks' willingness to lend is crucial in addressing the significant challenge of capital access for women and women of color entrepreneurs.

FINANCIAL INSTITUTIONS SERVING WOMEN AND WOMEN OF COLOR ENTREPRENEURS IN UTAH

Utah's primary resources for entrepreneurs are concentrated in three areas: capital; training and mentorship; and networking and business development. Access to capital, essential for business expansion, is a critical barrier for women and women of color entrepreneurs.

ACCESS TO CAPITAL FOR ENTREPRENEURS

Entrepreneurs have various funding options to consider as they build and scale their business. They often use a combination of options at different stages of business growth, including:

- Self-funding: Using an entrepreneur's own resources or resources from family and friends, which does not require repayment or transfer of ownership stakes.
- Debt: Options that require repayment over time.
- Equity: Selling a portion of ownership in exchange for capital.

In the early stages, entrepreneurs often fund their businesses using personal savings and/or assistance from their personal network. According to a 2019 SCORE survey of start-ups, 66.3% of entrepreneurs use their own funds (including income from another job), and 17.7% rely on financial support from friends and family.[29] As businesses progress beyond the start-up phase, they typically require outside sources of financing to expand and grow. Accordingly, a survey of more than 5,000 businesses by OnDeck found that the primary external source of funding for start-ups (34.9%) is in the form of loans from banks and other lending institutions.[30]

However, accessing loans can be challenging for women-owned businesses. Despite women-owned employer businesses being almost as likely as men-owned businesses to apply for financing, the Annual Business Survey reveals a discrepancy in approval rates. Only 52.3% of women-owned businesses received all of the financing applied for, compared to 54.6% of men-owned businesses. Moreover, 12.8% of women-owned businesses received none of their requested financing, while only 10.6% of men-owned businesses faced the same challenge.[31] These disparities are even greater for women of color, with only 37.8% of their businesses receiving all requested credit and 18.2% receiving none.

Women-owned businesses also receive less equity funding via venture capital. In 2022, only 2.1% of venture capital went to businesses solely founded by women[32] – a national trend that persists in Utah. According to a 2018 landscape review by Sorenson Impact Institute, female-founded ventures in Utah received only 1.9% of venture capital raised in the state in 2017.[33] These disparities together underscore the challenges facing women entrepreneurs, particularly those of color, in securing business financing.

FINANCIAL INSTITUTIONS IN UTAH THAT FINANCE SMALL AND GROWING BUSINESSES

This section, discussing financial institutions supporting small and growing businesses in Utah, is based on interviews with five financial institutions prioritizing underserved communities and entrepreneurs. The interviews focused exclusively on debt financing, considering its prevalence compared to equity financing. The SII team identified financial institutions to interview based on whether they marketed their products and services to underserved populations. This included: a traditional bank, offering a product targeting underserved populations; a Community Development Financial Institution (CDFI), specializing in lending to businesses in under-resourced communities; and a Certified Development Company (CDC), promoting economic development within its community by offering Small Business Administration (SBA) 504 loans.[34] The primary objective of these interviews was to gain insights into how these financial institutions have effectively offered products and services to underserved entrepreneurs who have historically and contemporarily faced barriers to accessing capital from traditional lending institutions, with a focus on women and women of color.

Traditional Banks

The primary source of credit for small and medium businesses is banks, which offer a wide range of services including providing personal and business loans. In Utah, national banking groups such as Wells Fargo, U.S. Bank, and JP Morgan Chase coexist with local institutions, such as Zions Bank, Altabank, and Bank of Utah.

While small business owners can access a range of loan products at large banks, these institutions often adhere to stricter regulatory requirements and follow established risk management practices, resulting in less flexibility in underwriting compared to mid- and small-sized banks. Typically, securing a traditional bank loan requires having 2-3 years of business operation, business collateral, and meeting certain business revenue thresholds. Additionally, traditional banks are less likely to lend amounts below $250K because the return on underwriting a small loan is not as favorable as that of a larger loan.

In interviews, the financial institutions highlighted that their success in reaching underserved entrepreneurs stems from employing loan officers who are representative of the diversity of their clients. Actions such as speaking the same language and using grassroots marketing allows these banks to build trust among their clients. Notably, few traditional banks actively invest resources towards building these relationships, creating challenges for women and women of color entrepreneurs. More recently, some traditional banks have begun adopting new approaches to better meet the needs of underserved communities.

Zions Bank, a leader in SBA lending that originated in Utah and serves the mountain west states, is one traditional bank dedicated to supporting underserved entrepreneurs through its Small Business Diversity Banking Program.[35] Recognizing the challenges women, people of color, veterans, and LGBTQ individuals face in navigating business financing, Zions Bank takes a proactive approach to adjusting its underwriting criteria for requirements such as operating history and business or personal credit score thresholds. Zions Bank also offers free advice and resources through its Business Resource Center and uses non-traditional marketing strategies to reach their target audience, such as engaging with community groups, advertising in newsletters, leveraging social media, and emphasizing the safety and reliability of their services. In doing so, Zions Bank exemplifies a proactive model for supporting underserved entrepreneurs through tailored financial products, adjusted underwriting criteria, and extensive outreach.

Community Development Financial Institutions (CDFIs)

Community Development Financial Institutions (CDFIs) vary in size and scope but share a common goal of expanding economic opportunity in low-income communities by providing access to financial products and services.[36] CDFI-status is a federal designation that can be applicable to banks, credit unions, loan funds, microloan funds, or venture capital providers. These institutions gain access to the federal CDFI Fund and support community development by investing a minimum of 60% of their funds in low- and moderate-income communities.[37]

There are three CDFIs serving Utah that offer small business loans. Although each of the CDFIs interviewed stated that their loan products were not targeted specifically toward women, more than 50% of their loans were given to women entrepreneurs. The Utah Microloan Fund and the Suazo Business Center, two of the CDFIs interviewed, offer microloans with loan sizes up to $50K and $35K, respectively. Primarily serving start-up and early-stage businesses ineligible for traditional bank financing, they also offer additional capacity building services, such as training and mentoring, to help aspiring entrepreneurs acquire the skills necessary to scale their enterprises.

Suazo Business Center

Utah's newest CDFI, Suazo Business Center (Suazo), is a business resource committed to the development and empowerment of the Latino/Hispanic and other underserved communities. While Suazo only received CDFI status in 2023, it has offered microloans since 2007 and technical assistance since 2001. To be eligible for a small business microloan from Suazo, the business owner must be an existing client, which involves participation in one of Suazo's technical assistance or mentoring programs. Suazo assesses loan eligibility and risk profiles by leveraging their relationship with clients rather than using defined underwriting criteria. Every loan application undergoes a risk assessment that is signed off by the Board Finance Committee. Their loans, averaging $24K, offer below-market interest rates and are the first formal credit for many of their borrowers and business owners. Suazo made its first $50K loan in January 2024."

While Suazo does not specifically target women entrepreneurs for lending, they believe that their predominantly female staff of loan officers helps women clients feel more comfortable seeking financial and technical assistance to start and grow their businesses. In 2023, 58% of their active loans were held by female entrepreneurs, and approximately 75% of course participants in 2022 were women. Furthermore, nearly all of Suazo's loans go to Latino entrepreneurs. Their marketing strategy relies on word of mouth within the communities they represent and referrals from government agencies and other nonprofits. Suazo has found this to be an effective approach for building trust and a strong reputation within Utah's minority and mainstream business community.

Utah Microloan Fund

The Utah Microloan Fund (UMLF) is a CDFI serving the entire state of Utah, providing capital to entrepreneurs deemed too risky by traditional financial institutions. In addition to providing capital, UMLF offers technical assistance and business mentoring. The fund collaborates with organizations like the Utah Black Chamber and the Women's Business Center of Utah to reach underserved communities. UMLF loans range from $5K to $50K. In 2023, more than half of their lending portfolio supported women entrepreneurs, and over a quarter went to people of color. UMLF primarily assists start-up or early-stage businesses, with less than two years of business history and/or those lacking collateral or business credit history.

MoFi

Based in Montana, MoFi is a CDFI loan fund that operates across the Northern Rockies and portions of the upper Midwest. MoFi has been lending in Utah since 2021 and in 2023, roughly 10% of its lending was in the state. Annually, over half of MoFi's small business loans are to women owned businesses and roughly 20% to minority business owners. MoFi offers loans ranging from small working capital loans to loans of up to $1.5 million for businesses, with an average loan size of about $90K.

MoFi takes pride in offering loans to 'nearly bankable' businesses. A measure of success for MoFi is that their clients no longer need their services. To achieve their goal of helping clients achieve independence, MoFi guides borrowers toward traditional banks after helping these businesses build a strong financial foundation.

The CDFIs serving Utah, including Suazo Business Center, Utah Microloan Fund, and MoFi, play a pivotal role in fostering economic growth in low-income and underserved communities. Despite not explicitly targeting women entrepreneurs, these institutions have inadvertently become significant supporters of women-owned businesses, providing much-needed financial resources, technical assistance, and mentoring. Their services, ranging from microloans to larger financial support, are crucial for start-ups and early-stage businesses that traditional banks often overlook. Moreover, their focus on building a path to traditional banking and financial independence for their clients underscores the critical function CDFIs serve in empowering entrepreneurs, particularly women and people of color, to establish and grow their businesses.

Certified Development Companies (CDCs)

A Certified Development Company (CDC) is a nonprofit organization that promotes economic development within its community by administering the SBA's 504 Development Company Loan Program. SBA loans, backed by the SBA, allow financial institutions to assume more risk than they otherwise would. The 504 loan program, specifically, offers small businesses long-term, fixed rate financing for major fixed assets, such as owner-occupied commercial real estate.

Mountain West Small Business Finance (MWSBF) is a Utah-based CDC that administers the SBA's 504 Development Company Loan Program and offers the SBA 7(a) Community Advantage (CA) loan. The SBA CA loan program provides loans of up to $350K to businesses operating in underserved areas. The average loan size of MWSBF CA loans is $125K. While only approximately 15% of MWSBF loans across both programs go to women-owned businesses, MWSBF highlighted its ongoing effort to develop a strategy to reach more women entrepreneurs in Utah.

CHALLENGES TO FINANCING WOMEN AND WOMEN OF COLOR ENTREPRENEURS IN UTAH

Securing financing, both for operational support and providing loans, emerged as a recurring challenge among the financial institutions interviewed. The primary funding sources for CDFIs include SBA loans, individual banks, and government and private grants. Beyond the benefit of avoiding dependence on a single source, multiple sources of funding give CDFIs more flexibility, particularly around restrictions tied to specific sources of funding. These restrictions, when placed on loans to small businesses, can pose challenges for CDFIs in effectively serving underserved populations.

Many of the lending institutions in this sector, particularly smaller CDFIs, face challenges in their marketing efforts, as they often rely on grassroots strategies with limited scalability. Another common factor cited by the financial institutions is building trust with marginalized groups. For instance, MWSBF emphasized the importance of their efforts to overcome borrower-lender mistrust, underscoring the need to advocate for diverse loan officers.

All the institutions consulted in this research highlighted the increased risk associated with lending to businesses that are unable to secure traditional bank financing, particularly early-stage businesses. Many of these financial institutions stressed the importance of having access to a loan loss reserve fund to cover losses in the event of a default.

SUMMARY

Despite not specifically targeting them, many interviewed financial institutions have effectively reached a high number of women-owned businesses. This reach has been achieved through relationship building, technical assistance, and alternative underwriting practices. The following insights were gathered from interviews with these financial institutions:

1. **While financial institutions report separate data related to the gender and race of their clients, almost none report data on the number of women of color entrepreneurs they serve.** Women entrepreneurs make up more than 50% of clients for many financial institutions and products designed for underserved entrepreneurs. While most institutions provided information on the percentage of clients identified as women or people of color, none could provide details about the proportion that were specifically women of color. This information gap exists because this data is not currently included in their reporting practices.

2. **Financial institutions targeting underserved entrepreneurs employ various methodologies that diverge from conventional banking practices.** The financial institutions targeting underserved entrepreneurs rely on alternative underwriting practices, including waiving requirements for two years of operating history and collateral and using a lower credit score threshold. The majority of financial institutions also provided technical assistance to their clients, including financial education and business coaching; some institutions required this as a condition for receiving financing. Moreover, non-traditional financial institutions gauge success according to whether their clients transition away from their services, are able to establish relationships with traditional banks, and run successful businesses.

3. **Demand for financing among underserved entrepreneurs significantly outpaces supply, particularly for those seeking midrange loans ($75K-$250K).** While some financial institutions offered microloans below $50K and slightly larger loans between $50K and $75K, there were fewer options for entrepreneurs seeking loans between $75K and $250K. Most of the financial institutions interviewed, particularly CDFIs, are facing high demand for loans exceeding $75K. Institutions that did operate in this loan size range also had limited capacity to meet the demand.

CONCLUSION AND RECOMMENDATIONS

Women and women of color-owned businesses in Utah are underrepresented relative to their population shares, highlighting the need for targeted strategies to support their growth and promote an inclusive business landscape. Women-owned businesses in Utah have shorter operational histories, employ fewer workers, and operate in slightly different industries than businesses owned by men. This is more pronounced for businesses owned by women of color, which are more likely to have shorter business tenures and operate in slightly different industries than women-owned businesses. In Utah, these challenges are compounded by the socio-cultural landscape in which women entrepreneurs must balance their careers with home responsibilities, gender discrimination, insufficient business preparation, and access to capital.

While significant resources have been devoted to upskilling women entrepreneurs and improving their business skills, little attention has been focused on the financial institutions that work directly with underserved entrepreneurs to provide them business financing as well as technical assistance. In this report, we shed light on Utah's growing ecosystem of financial institutions targeting underserved entrepreneurs.

We find that these institutions reach women entrepreneurs by engaging in several best practices, including building relationships with their clients, providing more-than-capital support, and engaging in alternative underwriting practices. To empower other institutions to take up these strategies, we provide the following list of recommendations.

Recommendation 1: Provide financial resources to institutions serving underserved populations to support more comprehensive data management, analyses, and reporting

The lack of available data on financing for women of color entrepreneurs in Utah poses a significant challenge in accurately assessing the extent to which these entrepreneurs are being served by financial institutions. While most of the financial institutions interviewed were able to provide statistics on the share of their clients that were women and people of color, limited organizational capacity hindered their ability to provide information on the share of their clients that were women of color. To address this issue, these financial institutions would benefit from additional financial support dedicated to improved data management, analysis, and reporting.

Recommendation 2: Provide financial resources to institutions serving underserved populations to better market their products and services to businesses in these communities

All of the CDFIs interviewed expressed challenges in effectively communicating their mission, products, and services to businesses in communities that lack access to traditional financing. To address this, additional financial resources should be allocated to help these financial institutions improve their marketing efforts to raise awareness of their products and services, expand their reach and expand access to capital to more underserved entrepreneurs.

Recommendation 3: Create a dedicated growth loan product serving women and other underserved entrepreneurs seeking midrange loans ($75K to $250K)

While several financial institutions, particularly CDFIs, serve the lower market segment ($5K to $75K) with a variety of loan products, there are few financial institutions lending larger growth capital loans to underserved entrepreneurs of emerging small businesses. Creating a new, dedicated growth loan product would directly address the primary challenges faced by these entrepreneurs in accessing business loans from traditional financial institutions, including (i) the threshold of $250K loan size for accessing traditional bank financing and (ii) the requirement of two years of business operating history. This type of growth loan product would enable underserved entrepreneurs to access growth capital to scale their businesses beyond the start-up phase. Accessing this growth capital would strengthen these businesses, support revenue growth and expansion of a businesses' footprint and customer base, improve fiscal stability, and contribute to employment growth and opportunities for the communities they serve. For a detailed proposal of the loan product, consult Appendix A.

APPENDIX A: Proposed solution – Growth Loan Product

CHALLENGE

In surveying the landscape and availability of small business financing for underserved entrepreneurs across Utah, the SII team identified a market gap in the provision of business loans to entrepreneurs. While several financial institutions, especially CDFIs, serve the lower market segment ($5K to $75K) with a variety of loan products, there are few financial institutions lending larger growth capital loans to underserved entrepreneurs of emerging small businesses.

Traditional financial institutions, namely banks, credit unions, and commercial finance companies, tend not to lend to businesses with fewer than two years of operating history or those seeking loans below $250K. These requirements limit early-stage businesses from accessing necessary debt growth capital, and prevent many underserved entrepreneurs from scaling their businesses beyond the start-up phase. Consequently, entrepreneurs face challenges in hiring, expanding the business, growing inventory, and managing unforeseen emergencies.

Underserved entrepreneurs in Utah are impacted by these constraints, facing limited options for debt financing between $75K to $250K. They are compelled to rely on revolving loan funds, which lend small amounts and may take up to 6 months to approve, or from online lending platforms charging high interest rates, ranging from 30% to 60% APR. Without an efficient and affordable source of growth capital, entrepreneurs are forced to cobble together financing from various sources, or take on the burden of high interest charges from online lenders, harming business growth.

SOLUTION

The research conducted for Project DEEP Phase 2, summarized in this report, demonstrates a significant and concerning gap in entrepreneurs' access to growth capital loans between $75K to $250K. Introducing a dedicated growth loan product could address two key issues for entrepreneurs: the $250K loan threshold and two years of business operating history typically required by lenders. In doing so, it would enable women and other underserved entrepreneurs to access growth capital to scale their businesses beyond the start-up phase. Accessing this growth capital would strengthen these businesses, support revenue growth and expansion of a businesses' footprint and customer base, improve fiscal stability, and contribute to employment growth and opportunities for the communities they serve.

To adequately address the existing market gap, the growth loan product should meet the following parameters:

Target group for growth loans:

- Small businesses unable to access capital from a traditional bank or a SBA 504(a) loan operating across Utah.
- Borrower criteria: Early stage businesses with existing, albeit limited, credit history. Businesses that have already received an initial business loan ranging from $5K to $50K.

APPENDIX A: Proposed solution – Growth Loan Product

Key components of growth loans:

- *Loan size:* $75K to $250K.
- *Interest rate:* Market rate or slightly above market rate.[38]
- *Loan tenor:* 4 to 7 years - target average of 5 years.
- *No prepayment penalty:* The growth loan product should allow emerging entrepreneurs the flexibility to refinance or repay their loans early if their growth requires a larger subsequent loan.
- *Provision of Technical Assistance:* Like the start-up loans provided by CDFIs, growth loans should include a mandatory technical assistance component that helps entrepreneurs successfully manage their growth and mitigate potential risks.
- *Facilitating linkages to traditional financial institutions:* Once the borrower is ready to progress to a larger loan, the intermediary should assist in connecting them with a traditional financial institution. The ultimate goal is for recipients of growth loans to have the ability to access loans from traditional financial institutions after receiving the initial growth loans.

Potential intermediaries for the growth loan product:
As outlined in the Project DEEP Phase 2 report, women and underserved entrepreneurs in Utah have some options for start-up loans, thanks to the existing ecosystem of CDFIs offering loans between $5K and $50K. Therefore, for the deployment of this growth loan product, SII would advise for the adoption of an intermediated approach whereby two to three existing CDFIs currently active in this market would be selected to receive funding. Such funding would enable these institutions to scale their lending operations to the target range of growth loans while also increasing the amount and number of loans provided by the institution. An intermediated approach would be the most efficient means of deploying this capital as the CDFIs outlined below already have an existing customer base, mitigating deployment risk, and already have robust grassroot connections to low-income/underserved communities to facilitate marketing of such loans to the target group.

CDFIs with a track record of providing start-up loans to women and other underserved entrepreneurs include:

- Utah Microloan Fund
- MoFi

CDFIs with an emerging track record of providing start-up loans to women and other underserved entrepreneurs include:

- Suazo Business Center

To launch a growth loan product, these CDFIs will require capital from investors or donors. Beyond the capital needed to scale the number and volume of loans, CDFIs have emphasized the necessity of grant capital to finance their operating expenses associated with launching a new product. This operating capital is essential to (a) expanding their staff to underwrite and manage this new loan product, and (b) financing the additional technical assistance needed for these borrowers. Depending on resource availability, a pilot program targeting one CDFI could be launched and scaled if short term outcomes are achieved.

IMPACT

The creation and implementation of growth loans for entrepreneurs in Utah would primarily benefit 4 stakeholder groups: (i) underserved entrepreneurs, including women, women of color and minority owned businesses, (ii) CDFIs, (iii) employees of businesses receiving these loans, and (iv) the low and moderate income communities that are served by these businesses.

The following section provides an overview of the potential short and long-term outcomes associated with the deployment of this product. Moreover, an initial set of impact key performance indicators (KPIs) have been identified. If data is adequately tracked, these indicators would demonstrate the impact of deploying this growth capital for underserved entrepreneurs in Utah.

	Short-term outcomes	**Medium and long-term outcomes**
Underserved entrepreneurs	More underserved entrepreneurs with access to growth capital More underserved entrepreneurs expanding their businesses and offering services they could not otherwise provide	Increase in # of businesses owned by underserved entrepreneurs Increase in income and wealth generation through business growth for underserved entrepreneurs
Utah Focused CDFIs	Increase in customer (borrower) base Increase in revenues Increase in provision of technical assistance to underserved entrepreneurs	Increase in total loan portfolios of Utah CDFIs Increase in staffing Increase in geographic footprints of CDFIs
Employees	Increase in number of jobs Increase in number of jobs for low-income people	Increased income and financial security % decrease in workers receiving public assistance
Low and moderate income communities	Increased private investment in businesses located in or serving low- and moderate-income communities in Utah	Increased # of new businesses created Increased local tax revenue Decrease in unemployment rate

Potential impact metrics:
Progress toward the short and long term impacts described above will be measured annually and tracked over time using a variety of metrics, including, but not limited to:

Entrepreneur focused:

- Entrepreneur demographics (i.e., gender, ethnicity, and race)
- Annual business revenue ($)
- # of employees
- Average hourly wage of employees
- # of customers
- # of locations/stores

CDFI focused:

- # of new loans of loan size between $75K to $250K
- Average size of new loans made ($)
- # of existing customers for growth loans
- # of new customers for growth loans
- Average interest rate
- Average loan tenor
- Average default rate
- # of technical assistance sessions organized for entrepreneurs receiving growth loans
- # of staff
- Total Loan Portfolio (TLP)
- # of Non performing loans (NPL)
- Geographic coverage

RISKS

SII has identified the following potential risks that could prevent the fund from achieving its intended goal of increasing access to growth capital to underserved entrepreneurs.

1. ***Risk:*** Borrower credit risk

   Mitigant: The primary risk factor for this product is the potential for borrowers to default on their loans. Recipients, who are emerging entrepreneurs, have limited credit history and minimal collateral, and the growth loans represent the first large loans for their businesses. To mitigate this risk, intermediaries responsible for deploying the growth loan product will have to conduct a thorough underwriting process to ensure that such loans go to borrowers who have a high likelihood of repaying the loans. Moreover, this risk can be mitigated through the provision of technical assistance to the recipients of the growth loans. This TA can provide entrepreneurs with the knowledge and skills to grow their businesses and identify potential issues in their repayment ability. Based on the initial default rates shared by the intermediaries interviewed, credit risk can be considered to be low and marginally higher than traditional lending portfolios.

2. ***Risk:*** Counterparty risk

   Mitigant: When relying on an intermediated approach to deploy a financial product, investors rely on their partners to deploy capital. Consequently, a key risk is the technical and financial expertise of potential intermediaries and their ability to effectively implement the growth loan product. To mitigate this risk, potential counterparties should be selected based on the following criteria:

   - Track record of lending to the target population (i.e. underserved entrepreneurs)
   - Robust due diligence and risk management procedures
   - History of fiscal stability at the organizational level
   - Experienced and tenured staff

   Based on the track record and experience of the aforementioned institutions, counterparty risk can be considered low due to the proven track record of institutions like MoFi and UMLF.

3. ***Risk:*** Women and women of color entrepreneurs may be unable to access the capital if it is not explicitly reserved for them.

   Mitigant: The CDFIs identified as potential intermediaries already have a strong track record of serving women entrepreneurs, with over 50% of their clients being women. Regular monitoring of impact metrics will ensure that underserved entrepreneurs, including women and women of color, are accessing the program. If impact data collection indicates insufficient service to these groups, the SII team will work with the CDFIs on their outreach efforts.

APPENDIX B:

Industry Distribution and Shares

Table 1 Industry Distribution by Gender and Minority Status, 2019[39]

Industry	Men	Women	Women of Color	Industry Share - Women	Industry Share - Women of Color
Accommodation and food services	2.3%	-	-	-	-
Administrative and support and waste management and remediation services	6.3%	8.9%	15.0%	43.6%	11.3%
Agriculture, forestry, fishing and hunting	-	-	0.2%	-	1.6%
Arts, entertainment, and recreation	5.1%	5.9%	3.9%	39.5%	4.0%
Construction	13.6%	2.4%	-	8.8%	-
Educational services	2.2%	-	-	-	-
Finance and insurance	4.6%	2.1%	-	17.7%	-
Health care and social assistance	5.1%	9.8%	9.5%	50.2%	7.5%
Information	2.0%	1.4%	-	27.3%	-
Management of companies and enterprises	0.1%	-	0.0%	-	0.0%
Manufacturing	2.7%	1.7%	1.0%	24.0%	2.2%
Mining, quarrying, and oil and gas extraction	0.3%	0.1%	-	11.3%	-
Other services (except public administration)	5.8%	14.1%	17.6%	54.8%	10.5%
Professional, scientific, and technical services	18.3%	15.1%	11.9%	30.8%	3.7%
Real estate and rental and leasing	10.7%	9.2%	6.1%	23.7%	2.4%
Retail trade	-	13.3%	-	41.4%	-
Transportation and warehousing	8.0%	-	7.5%	-	6.4%
Utilities	0.1%	-	-	-	-
Wholesale trade	2.5%	1.5%	-	22.1%	-
Total	100%	100%	33.0%		

APPENDIX C: Profile of financial institutions

ZIONS BANK

Overview of Zions Bank

Zions Bank provides a wide range of traditional banking and innovative technology services. Through its network of 121 full-service branches across Utah, Idaho and Wyoming, the bank offers consumers a range of mortgage and home equity loan options, credit cards, private banking services, and online and mobile banking. Zions operates under local management teams and distinct brands in 11 western states. Zions First National Bank was founded in Salt Lake City in 1873 and continues its legacy of strength and stability as the oldest financial institution headquartered in the Intermountain West.[40]

Zions Bank is a market leader in U.S. Small Business Administration (SBA) lending, having received numerous awards for excellence in small business banking. Consistent with their value of celebrating differences by fostering belonging and addressing issues of social injustice and inequality, in 2021, Zions Bank implemented a loan product specifically aimed at addressing the hurdles faced by underserved populations. [41]

Overarching approach to lending

Zions Bank distinguishes itself through a relationship-based approach to banking, emphasizing building loyalty among its clients. A significant aspect of Zions' approach to lending is their commitment to supporting underrepresented small business owners. Zions worked in collaboration with federal regulatory bodies to create tailored financial products for underserved entrepreneurs. Their Small Business Diversity Banking Program, a $400 million loan product introduced in 2021, targets women, minorities, veterans, and LGBTQ individuals. Notably, Zions discovered that 38% of all applicants within this segment did not require specialized products; however, this initiative ensures access for those who would not otherwise have qualified under Zion’s traditional loan products.

Loan sizes requested under the Small Business Diversity Banking Program typically range from $25K to $75K. To better serve the underserved population targeted under the program, Zions modified some of its underwriting criteria, specifically time in business, business credit score thresholds, and personal credit score requirements. Despite these modifications, Zions has not experienced any defaults on loans offered under this program to date. Zions attributes this partly due to the close relationships established with borrowers, through Zions’ Business Resource Center, which offers free advice and resources to budding entrepreneurs. Zions also employs diverse marketing strategies to reach their target audience, engaging with community groups, advertising in newsletters, and leveraging social media, emphasizing the safety and reliability of their services, especially in communities where there may be mistrust of financial organizations.

Looking ahead, Zions continues to analyze the impact of their initiative, balancing market penetration with return on investment. Their focus remains on empowering individuals financially, ensuring that they continue to support aspiring entrepreneurs with the aim of those business owners being able to move on to traditional banking products.

Key Product Offering Targeting Women and Women of Color Entrepreneurs

Target group: The Small Business Diversity Banking Program targets women, minorities, veterans, and LGBTQ individuals.

Loan sizes: Loan sizes typically range from $25K to $75K.

Loan terms: Zions Bank offers flexible loan terms and conditions designed to accommodate the unique challenges of underrepresented entrepreneurs.

Borrower criteria: For the Small Business Diversity Banking Program Zions Bank has modified its underwriting criteria, specifically relating to time in business and credit score thresholds (from 700 to 650 for personal credit score).

Key features: Zions' lending is done with a relational approach in order to meet the unique needs of underrepresented entrepreneurs.

Impact

Reach: Zions Bank has branches in 122 communities across Utah, Idaho and Wyoming.

Utah presence: Zions Bank originated and still has a strong presence in Utah.

Default rates: Since being launched in 2021, Zions Bank has not experienced any defaults on loans offered under the Small Business Diversity Banking Program and little delinquency.

Other success metrics: In addition to default rates, Zions Bank measures success by analyzing market penetration, ROI, and the long-term financial empowerment and growth of the individuals they serve.

Challenges

The main challenge facing Zions Bank's Small Business Diversity Banking Program is that smaller loans have a higher cost of service, resulting in smaller returns. The program needs to maintain a minimum ROI and because the product is new, Zions Bank is still trying to understand the potential for loss.
They continue efforts to ensure the program is mutually beneficial by meeting the client needs and demonstrating a return on investment.

SUAZO BUSINESS CENTER

Overview of Suazo Business Center

The Suazo Business Center (Suazo) is a business resource committed to the development and empowerment of the Latino/Hispanic and other underserved communities. Suazo provides assistance to help existing and potential minority entrepreneurs succeed and build wealth.[42]

The Suazo Business Center was established in 2001 in honor of Pete Suazo, the first Hispanic senator in Utah. Suazo provides business advice, courses, and workshops to help Hispanic/Latino and other underserved entrepreneurs with their business goals. In 2007, they initiated a microloan fund with support from local banks. In 2023, Suazo received certification from the federal government as one of Utah's Community Development Financial Institutions (CDFIs). Suazo now operates across the state of Utah, with locations in Salt Lake City, Ogden, and St. George, providing technical assistance and financial support to hundreds of businesses every year.

Overarching approach to lending

Suazo distinguishes itself through its focus on personal relationships and dedication to empowering entrepreneurs, especially those belonging to minority and underserved communities. Their recent CDFI certification reflects their commitment to addressing needs of underserved entrepreneurs and is indicative of their plans to expand their reach.

Suazo focuses on building relationships with their clients, ensuring a deep understanding of their financial needs. Suazo has maintained a 100% repayment rate by lending exclusively to existing clients and leveraging these relationships to evaluate loan eligibility and risk profiles. Suazo does not have a defined underwriting criteria; every loan application undergoes an assessment of risk that is signed off by the Board Finance Committee. Their loans, with an average amount of $24K, carry below-market interest rates. For many of their borrowers, these loans represent their first formal credit as business owners.

Suazo does not specifically target women entrepreneurs for lending, but they do have a predominantly female staff of loan officers, which Suazo believes helps women feel comfortable seeking financial and technical assistance to start and grow their businesses. In 2023, 58% of their active loans were held by women entrepreneurs and in 2022 roughly 75% of participants in their courses were women.[43] Nearly all of Suazo's loans are to Latino entrepreneurs.

They source their loans primarily through word of mouth within the communities they represent and referrals from government agencies and other nonprofits. Suazo has found that this grassroots approach helps build trust and a strong reputation within the minority and mainstream businesses community. Suazo's services extend beyond lending. They offer individual mentoring, community outreach workshops, and specialized business courses in both Spanish and English. These courses, which span six months, require a fee of $100 / month, which they have found promotes greater commitment from participants.

Key Product Offering Targeting Women and Women of Color Entrepreneurs

Target group: Latino and other underserved communities.

Loan sizes: Average loan amount is $24K

Loan terms: 3-5 year terms.

Interest rates: Below-market interest rates.

Borrower criteria: Suazo only lends to individuals that are existing clients, using the relationship to assess risk and determine loanability.

Key features: Micro loans for existing clients (those who have received technical assistance).

Impact

Reach: Suazo has a broad reach across Utah for their technical assistance programs. They currently only offer a few loans at a time (fewer than 20).

Utah presence: Operates only in Utah, with offices in Ogden, Salt Lake City, and St. George.

Demographic reach: 97% of clients are minorities and in 2023, 58% of clients were women.

Default rates: Suazo currently has a 0% default rate because of the relationships they have built with their clients and their deep understanding of their clients' business needs and ability to take on debt.

Challenges

Having only recently acquired CDFI status, Suazo faces capacity constraints for lending. They are looking for new sources of funding to better meet the financial needs of their client base. Additionally, as Suazo diversifies their funding sources, they are likely to encounter restrictions on the types of loans they can administer which may have consequences for being able to serve some of their clients, e.g., individuals with only Individual Taxpayer Identification Numbers (ITINs).

UTAH MICROLOAN FUND

Overview of Utah Microloan Fund

The Utah Microloan Fund (UMLF) is a certified Community Development Financial Institution (CDFI) with a mission to empower underserved communities throughout Utah by providing business training and microloans to entrepreneurs in start-up and existing businesses that do not qualify for traditional funding sources.[44]

Operating as a non-profit organization, UMLF provides services for business owners deemed too risky by traditional financial institutions, such as those who do not have enough credit history, sufficient collateral for a conventional loan, or business owners who have had life events that have negatively impacted their credit score. Moreover, UMLF's technical assistance offers classes for borrowers and their Banking On Women program, a course designed for women entrepreneurs to learn the important aspects of running a business and make connections with other women founders.

UMLF aims to serve the entire state of Utah. They reach their borrowers through social media marketing, collaborating with local chambers and bank partners, and participating in events and networking opportunities.[45] Since 1991, UMLF has helped thousands of entrepreneurs receive small business loans.

Overarching approach to lending

UMLF concentrates on early-stage financing and technical assistance for entrepreneurs. UMLF collaborates with organizations like the Black Chamber and the Women's Business Center of Utah, fostering partnerships to reach underserved communities. UMLF operates with a community advisory board, striving to address challenges faced by different groups in Utah, allowing representatives from the communities they serve to voice the challenges they face.

UMLF focuses on serving low-income communities, aligning with CDFI requirements. UMLF manages a diverse portfolio of borrowers, with over half of their loans going to women entrepreneurs and a quarter to people of color. Their risk mitigation strategies involve frequent interactions with borrowers, leveraging resources like the provision of free advisory services through Utah's Small Business Development Centers (SBDCs), and assessing borrowers' support systems.

UMLF offers microloans ranging from $5K to $50K. They maintain an average loan size of $25K and follow an approach in which they are actively involved with borrowers, helping them navigate the complexities of running a business.

Additionally, their Banking On Women program offers comprehensive support for women founders, whether they are about to start their business or have been operating for years. The program has been running for over 10 years and includes a virtual cohort for women in rural areas as well as an in-person cohort. The curriculum covers various aspects of running a small business including business planning, market research, marketing, financial management, growth, and leadership. Because of UMLF's partnership with Synchrony Bank, the program is free for the applicant. In addition to receiving technical assistance, the Banking On Women program is meant to facilitate connections between other women founders so they have a network of mentors and friends.[46]

Key Product Offering Targeting Women and Women of Color Entrepreneurs

Target group: Small business owners unable to get traditional bank financing, with a focus on people in low-income and other underserved communities.

Loan sizes: Loan sizes generally range from $20K to $30K, with the lowest being $5K and maximum $50K.

Loan terms: UMLF provides loans with terms of up to 6 years, although they could potentially extend to 7 years, aiming for an average of around 5 years. All are structured as term loans without prepayment penalties.

Interest rates: Below-market rates, according to SBA standards.

Borrower criteria: UMLF focuses on entrepreneurs in the early stages of business, often with low collateral, low credit scores, and potentially with histories of bankruptcies.

Key features: UMLF's approach includes active involvement with borrowers through technical assistance and assessing borrowers' support systems to mitigate risks associated with early-stage businesses.

Impact

Reach: In 2021, UMLF provided almost $1 million in micro loans to small business owners.[47]

Utah presence: UMLF is based in Utah, covering the entire state.

Demographic reach: In 2023, 60% of new loans were made to women entrepreneurs and 29% were made to minority-owned businesses.

Default rates: Around 5-7%, above the typical bank default rates of 1-2%.

Other success metrics: Their clients becoming bankable to traditional banks and credit unions.

Challenges

The key challenge for UMLF is that some funding sources such as government grants, OFN grants, and SBA loans often carry restrictions to specific lending and/or required training activities. UMLF is looking to diversify their sources of funding to better reach underserved populations.

UMLF is also looking to scale to offer loans up to $250K to better serve this market but sourcing capital for loans of this size remains a challenge.

MOFI

Overview of MoFi

MoFi is a Community Development Financial Institution (CDFI) loan fund providing capital to small businesses who are not able to acquire the capital needed to build successful businesses from traditional financial institutions.[48] The organization's origins date back to a project to improve the lives of women in Montana in 1986. Over the years, MoFi has evolved and expanded its geographic reach, gained CDFI status in 1996, and now operates across the Northern Rockies and upper Midwest, with offices in Missoula, Bozeman, Boise and Salt Lake City.

MoFi is primarily a small business lender, providing loans to entrepreneurs and business owners from underserved communities. MoFi helps businesses who lack the assets, income, experience, and/or credit history to qualify for traditional bank financing. They particularly emphasize assisting women-owned businesses, and they have a significant reach among people of color, especially Hispanic and Native American populations. MoFi provides its clients with access to capital through its small business loan program, then pairs each loan with free, comprehensive business training to help them build successful businesses, achieve financial sustainability, and establish a long-term relationship with a traditional bank.[49]

Overarching approach to lending

MoFi's paradigm is different from most players in the finance ecosystem and is the basis for many of their strategic decisions which contribute to their success. Through years of experience they have validated their assumptions and continue to operate with the following key principles in mind.

First, women and minority business-owners are not inherently more risky to lend to. Traditional financial institutions rely almost exclusively on a business owner's credit history and available collateral to assess risk. Collateral coverage is less critical for MoFi; one of the more important underwriting criteria for MoFi is assessing the extent to which the individual is prepared for their business venture. MoFi uses additional indicators to assess risk, including an applicant's willingness to repay loans and their cash flow projections.

The second key principle that sets MoFi apart is their emphasis on relationship-building. Most of MoFi's customers are referrals from traditional financial institutions who were initially denied financing. MoFi works with the client by offering business training paired with their loan to help them become bankable. MoFi is flexible in structuring loans to accommodate borrowers' needs, often opting for structures that keep initial payments manageable. The goal is for the client to ultimately become eligible for financing from the same financial institution that referred them.

MoFi has pioneered a "path to bankability," guiding borrowers toward traditional banks after helping these businesses to build a strong financial foundation. This approach, coupled with their attention to individual circumstances, has ensured a 98% repayment rate and a smooth transition for borrowers into traditional banking relationships. Well over half of MoFi's loans go to women-owned businesses. Much of this success may be attributed to their predominantly female staff, who foster trust and understanding with customers.

Key Product Offering Targeting Women and Women of Color Entrepreneurs

Target group: MoFi targets low-income individuals, particularly those lacking collateral and equity, who are often deemed as too risky by traditional financial institutions.

Loan sizes: MoFi offers loans ranging from $5K to larger loans of up to $1.5 million for businesses. Average loan size is a little under $100K.

Loan terms: Loan terms vary, covering a wide range of financing needs. There are never prepayment penalties.

Interest rates: MoFi has fixed, above-market interest rates. Their aim is not to compete with traditional banks but to help borrowers who have failed to secure traditional financing to become credit worthy.

Borrower criteria: MoFi serves individuals with credit scores of roughly 600 or better, a debt service coverage ratio of 1.0 or better, and an ability to repay.

Key features: MoFi places a strong emphasis on building relationships with borrowers, providing guidance and advice, and creating pathways to bankability. They often receive referrals from traditional banks of borrowers unable to meet the traditional bank's criteria, such as equity requirements. They aim to enable MoFi clients to return to traditional banks as future customers.

Impact

Reach: ~300 small businesses are expected to receive loans in 2023.

Utah presence: ~10% of MoFi's lending in 2023 is in Utah.

Demographic reach: In 2023, 96% of MoFi small business lending went to an underserved population (low income people, neighborhoods, rural, woman, or person of color).

Approval rates: MoFi has a loan conversion rate of ~10%, similar to traditional banks.

Default rates: 98% of borrowers pay back their loans and move on to traditional bank relationships.

Other success metrics: MoFi's primary success metric is time-in-portfolio, optimizing for the least amount of time. This is a reflection of their goal for customers to become qualified for traditional banking and have a relationship with that bank or credit union when the time comes. The average tenure is just over 3 years (which means that most customers are paying off their loans before the end of their term).

Challenges

MoFi has overcome many obstacles to reach their current state, but still faces challenges reaching scale. They rely on grassroots marketing, which is less scalable. Two primary barriers include awareness (for those businesses that need MoFi) as well as raising larger amounts of capital. Securing capital can be challenging for CDFIs, as they often need to piece together funding from multiple sources. MoFi continues to search for opportunities to expand its reach and expand access to capital to more businesses in need

MOUNTAIN WEST SMALL BUSINESS FINANCE

Overview of Mountain West

Mountain West Small Business Finance (MWSBF) is a non-profit that operates as a Community Development Corporation, offering lending and entrepreneurial education programs empowering small business owners to succeed.[50] MWSBF was created as an initiative of the State of Utah's Office of Economic Development in 1980, recognizing the need for support of existing local small businesses. Since its inception, MWSBF has provided loans to thousands of small businesses totaling one billion dollars.[51]

MWSBF works with local lending institutions, community economic development agencies, and business owners to facilitate access to capital for growth, expansion, and job creation in the state of Utah and in four surrounding states. MWSBF administers the SBA's 504 Development Company Loan Program and offers the SBA 7(a) Community Advantage loan.

Overarching approach to lending

MWSBF is a Certified Development Company, SBA's community-based partners who regulate nonprofits and promote economic development within their communities. As such, any profits generated from MWSBF's SBA 504 loan activity is used for community and economic development purposes.

The 504 loan program provides long-term, fixed rate financing to small businesses for major fixed assets, such as owner-occupied commercial real estate. The maximum loan amount for a 504 loan is $5.5 million. 504 loans are available exclusively through Certified Development Companies (CDCs).

MWSBF also offers the SBA 7(a) Community Advantage (CA) loans. 7(a) CA loans finance start-ups, featuring flexible credit score thresholds and omitted collateral requirements, making them accessible to entrepreneurs who traditional financial institutions may overlook due to their risk profile. SBA guidelines mandate that 85% of CA loans have to reach underserved borrowers, i.e., businesses in low- and moderate-income and rural communities, new businesses, and veteran-owned businesses. MWSBF's average loan size for their 7(a) CA loan program is around $125K and ranges from $75K to $350K.

While women and other demographic groups are not designated as 'underserved' per the SBA definitions, roughly 15% of MWSBF's lending portfolio of 504 and CA loans are to women-owned businesses. MWSBF's goal through their loan programs is to assist entrepreneurs to access credit from traditional financial institutions. Collaborative efforts with partners like Women's Business Center Utah, the Utah Microloan Fund, MoFi, and minority chambers have facilitated a streamlined referral system.

MWSBF's relationship with other important financial institutions for women and minorities in Utah extends beyond giving and receiving referrals. MWSBF also provides capacity building funding to many of these organizations, demonstrating how these organizations work together to enhance the creditworthiness of underserved entrepreneurs. Additionally, in partnership with the SBA, MWSBF is starting an initiative called the Small Business Alliance, bringing resource partners and lenders together to bridge the gap between entrepreneurial needs and available financial services.

Key Product Offering Targeting Women and Women of Color Entrepreneurs

Target group: New businesses (those in operation for less than two years) or businesses in rural areas, low-to-moderate income communities, or other zones of interest.

Loan sizes: The average loan size is $125K for the 7(a) CA and $950K for the 504.

Interest rates: Below-market interest rates.

Borrower criteria: Borrowers who are not able to obtain traditional bank financing. A typical MWSBF loan recipient might be an entrepreneur with industry knowledge and a good credit score but limited collateral to access traditional funding sources.

Key features: Loans are guaranteed by the U.S. government and can be used to finance real estate purchases, renovations, and/or working capital.

Impact

Reach: MWSBF has clients in seven western states. In 2022, more than 300 loans were administered.[52]

Utah presence: Roughly 75% of MWSBF's lending portfolio is in Utah.

Demographic reach: Roughly 15% of loans administered in 2022 were to women-owned businesses and 9% to minority-owned businesses.

Default rates: Less than 1%.

Other success metrics: Success is measured by clients who graduate into the traditional loan market.

Challenges

MWSBF has observed that the process of asking for funding can be intimidating, particularly for women, and some borrowers may distrust financial institutions. MWSBF believes trust can be built with underserved communities by hiring diverse loan officers.

ENDNOTES

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