Research Report

OCTOBER 4, 2000

ECONOMIC PROSPERITY, WOMEN AND ACCESS TO CREDIT

Best Practices in the Financial Markets

MILKEN INSTITUTE

National WOMEN'S BUSINESS Council

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Best Practices in the Financial Markets

The National Women's Business Council and the Milken Institute are pleased to release this research report addressing critical breakthroughs in access to capital. The report examines best practices initiated by government, non-profits and financial institutions to address the demand for credit from one of the most dynamic new market sectors: women-owned business. Essential recommendations gleaned from the lessons learned in implementing these programs and policies are included. The report provides our public and private institutions with tried and true initiatives that have worked to further the democratization of capital, not only for women but for all entrepreneurs seeking to launch or grow enterprises in this new economy.

There is no doubt that women have played a significant role in the unprecedented prosperity we have enjoyed during the past decade and continue to anticipate. According to the National Foundation for Women Business Owners, from 1987 to 1999, the number of women-owned firms increased by 103% nationwide, employment increased by 320%, and sales grew by 436%.

It is clear to us that by implementing these new initiatives, our elected leaders and our financial institutions have begun to recognize the strategic importance of investing in new markets. Directing our capital wealth – assets that women have been so instrumental in generating – back into women-owned businesses is vital to continuing the high rate of growth and momentum in our economy.

This report identifies several innovative programs that have successfully addressed the challenges women face in accessing financial resources. Their experience is by no means foreign to all businesses, especially new entrants into the marketplace, but the great influx of women into the ranks of the entrepreneurial has necessitated a more targeted approach to meeting this new demand for capital. Lenders have learned a great deal about addressing the capital needs of new markets through their experience in tailoring and marketing their lending programs to women. By sharing some of their most successful efforts, it is our hope that this report will be more than just food for thought, but rather a blueprint for action to help sustain all our new-market enterprises.

Kay Koplovitz

Kay Koplovitz
Chair, National Women's Business Council
CEO, Working Woman Network, Inc.

ECONOMIC PROSPERITY, WOMEN AND ACCESS TO CREDIT

BEST PRACTICES IN THE FINANCIAL MARKETS

October 4, 2000

By
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and Judith Gordon

MILKEN INSTITUTE

National WOMEN'S BUSINESS Council

ACKNOWLEDGMENTS

We would like to acknowledge and thank the many people who provided valuable data and constructive insight to this report. They are Kay Koplovitz, Chair, National Women's Business Council, CEO, Working Woman Network, Inc.; Amy Millman, Executive Director, National Women's Business Council; Lynn King, Program Manager, National Women's Business Council; Linda Darragh, Co-President, Women's Business Development Center; Teri Cavanagh, Senior Vice President, FleetBoston Financial, Founder and Director, Women Entrepreneurs Connection; Andrea Silbert, Director, Center for Women & Enterprise, Inc.; Renee Simms, Senior Vice President, Director Strategic Investments, Fleet Development Ventures; Lindsey Johnson Suddarth, CEO, Women Incorporated; Sandra Christenson, President, Heartland Paper Company; Avis R. Allen, Vice President of Special Projects and Lender Relations, National Community Reinvestment Coalition; Gregory Dean, Jr., Assistant General Counsel, NASD Regulation, Inc.; Jane Butler, Associate Administrator, Office of Financial Assistance, Small Business Administration; Kathy Keeley, President, Keeley & Associates; Aaron Pankratz, Milken Institute Research Assistant; Liya Brook, Milken Institute Research Assistant.

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The National Women's Business Council was created by Congress to serve as an independent source of advice and counsel to the President and Congress on issues of importance to women entrepreneurs. The Council has provided the women's business community with a seat at the policy-making table and has addressed cutting-edge issues of access to capital and access to markets that have posed the greatest challenge to women seeking to launch and grow their businesses. Additional information about the NWBC is available at www.nwbc.gov.

The Milken Institute is a 501(c)(3) not-for-profit, nonpartisan, nonideological, independent economic think tank founded in 1991. Based in Santa Monica, California, the Institute is a resource for economic and public policy research and analysis, and a center for advancing discussion about economic, financial, social and policy issues. The Institute's mission is to explore and explain the dynamics of world economic performance and growth. The overarching goal is to provide an understanding of the effects of economic, political, technological and regulatory changes on the world economy and its societies as a basis for a better-informed public, more thoughtful public policies, improved economic outcomes, and better lives for people.

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Executive Summary

The position of women in the United States, as citizens and as participants in the economy, has changed radically over the last century. Recalling that just 100 years ago women did not have the right to vote or own property brings the leap that they have made from citizens without standing to leadership positions in business and government into stunning perspective.

Today, women participate in the economy in record numbers, both as consumers and as business owners. It is no accident that their rise coincides with America's unprecedented economic prosperity. The start of this phenomenon began with the entry of women into the workforce in the 1970s and is now being propelled through women's business ownership.

This report examines financing strategies that have successfully increased access to capital for women starting or building service, technology and other noncollateral-based businesses. It looks at the work of alternative funding providers, large and small commercial lenders with targeted programs, technical assistance providers and government officials, and presents recommendations based on their work and other research. The goal of this report is simple: to promote capital flow to women-owned firms. It is hoped that this can be achieved via the identification of programs that merit replication to dramatically expand access to capital and credit for women business owners.

Lending markets play an empirical role in the ability of certain sectors to continue growth in a downturn economic cycle. A number of innovative recommendations that would channel increased capital flow to the smaller growth-oriented businesses are also included in this report as small businessses are the first to be affected by the slowing of economic activity. By incorporating our recommendations into today's economic policy and establishing the supportive infrastructure now, these new-economy businesses will have a significant advantage in weathering major market adjustments.

The United States is in the midst of its greatest period of economic expansion in over 30 years. The unparalleled impact of women business ownership on growth and productivity in our economy is evident:

- In 1972, women owned less than 5 percent of all businesses,

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The goal of this report is simple: to promote capital flow to women-owned firms.

In 1972, women owned less than 5 percent of all businesses, producing less than 1 percent of total sales.[1] By 1992, women-owned businesses accounted for 34 percent of all businesses and produced almost 20 percent of total sales.

Women today own 9.1 million of the roughly 24 million small businesses in this country. These firms employ about 52 percent of the private sector workforce and generate 51 percent of private sector output.

Women-owned businesses provide 27.5 million jobs to the U.S. economy and generate over $3.6 trillion in sales.

producing less than 1 percent of total sales.[1] By 1992, women-owned businesses accounted for 34 percent of all businesses and produced almost 20 percent of total sales.[2]

- Since 1987, the number of women-owned firms has doubled, employment has increased four times, and revenues have quintupled.[3]
- Women today own 9.1 million of the roughly 24 million small businesses in this country. This represents 38 percent of the small businesses operating in the United States.[4] These firms employ about 52 percent of the private sector workforce and generate 51 percent of private sector output.[5]
- Women-owned businesses provide 27.5 million jobs to the U.S. economy and generate over $3.6 trillion in sales.
- Women's labor force participation surpassed 60 percent in 1998.[6]

This broadened business experience has translated into higher rates of entrepreneurship and small-business formation critical to macroeconomic growth, and is a driving force behind our current boom. In the Women's Business Centers Sustainability Act of 1999 [PL 106-165, Dec. 9, 1999] Congress noted that in one decade, from 1987 to 1996, women-owned small businesses grew 171 percent in construction, 157 percent in wholesale trade, 140 percent in transportation and communications, 130 percent in agriculture and 112 percent in manufacturing. In light of this unprecedented growth, we must take a serious look at what support structures are in place to fuel these businesses in all types of economies.

Recognizing that there is real opportunity for investors in the current economy should act as an incentive to open access to credit and channel capital to women. While we have witnessed an increased flow of money to women entrepreneurs (the SBA has nearly tripled both the number and dollar value of loans to women since 1992) it has by no means paralleled the growth rate of women-owned businesses over the last decade, which are growing faster than the overall economy in each of the top 50 metropolitan areas in the United States.

Capital wealth recently forced financial institutions to reexamine their conventional lending models and expand them to new-economy businesses – precisely the types of businesses started by women. Democratization of capital in the last five years has prodded financial institutions into identifying new-markets entrepreneurs and embracing them as clients. The result of this market outreach has been the advent of repackaged lending programs initiated by banks and government targeted specifically to the newest entrants into the marketplace – women-owned businesses.

Many of these programs were reworked to address the particular needs of women and successfully expanded the lending base to this new-market community. Their key elements support increased flow of capital to women-owned firms and underscore that capital sources are increasingly serving this powerful market segment. Successful elements have been identified as:

- Combining financial and managerial or technical assistance to maximize the development and success potential of new-markets businesses.
- Mitigating risk for financial institutions through appropriate new-markets lending policies and procedures.
- Streamlining and expediting loan process and approval procedures specifically developed to serve women-owned businesses.
- Promoting community-lender partnerships and community-government partnerships.

While recent studies show that women's access to credit has improved, the fact remains that actual lending is not commensurate with the growth of women-owned businesses. Women receive only 12 percent of all credit provided to small businesses in the U.S. economy though they own close to 40 percent of all businesses in the United States.[7] Of $9.83 billion in SBA-backed loans made to small businesses from October 1999 to June 2000, women were awarded only $1.57 billion.[8] This microcosm of the broader lending environment for women business owners perpetuates family and friends as a dominant source of lending among women.

The fiscal upside is that heightened awareness of women's vital contribution to the marketplace is effecting fundamental change in financial institutions' lending practices. Lenders and investment communities, in conjunction with government, are initiating programs across the nation to serve this powerful, yet underserved, emerging domestic market.

Many financial institutions are facing the challenge of reaching these new markets by repackaging their financial products to suit women-owned businesses. Among the most noteworthy programs around the country that have successfully applied the elements identified thereby increasing access to credit for women entrepreneurs are:

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- FleetBoston Financial's Womens Entrepreneurs' Connection is a small-business-banking program that offers women business owners a spectrum of products and services geared for business success. The program assists startups and established businesses gain access to capital, information, advocacy and other resources. By forging strong relationships with specialized financing units such as Fleet Community Banking Group and Fleet Development Ventures, the program matches women-owned businesses with the financing best suited to its stage in the business cycle.

- The Wisconsin Women's Business Initiative Corporation (WWBIC) is a statewide economic development corporation certified as a Women's Business Center, business incubator, microlender and Community Development Financial Institution (CDFI). It provides access to capital combined with high quality business education, business assistance programs, one-on-one mentoring and other financial services.

- The Small Business Administration Community Express Loan Program, and its partner the National Community Reinvestment Coalition (NCRC) with several national banks are part of the SBA's New Markets Initiative to spur economic development and job creation in underserved communities through lending to small businesses that have difficulty obtaining traditional loans. Loans are combined with technical and management assistance in budgeting, marketing and management both before and after the loan is made. Hands-on training and management support are part of each borrower's loan conditions.

- Count-Me-In For Women's Economic Independence (Count-Me-In) is an innovative online "lending and learning" microloan organization dedicated to strengthening the position of women in the economy. This national nonprofit organization provides small loans to women who are not qualified, or fear applying, for conventional bank loans. The fund addresses systemic challenges women face in their dealings with traditional lending institutions that do not account for the realities of women's lives today. In an effort to remedy this, Count-Me-In is developing a more "woman appropriate" credit scoring technique that will measure a woman's work, personal experience and business development potential in evaluating eligibility for small-business loans.

- Capital Across America (CXA) is a mezzanine fund that targets women-owned businesses with revenue in excess of $1 million. Its objective is to create access to capital for women-owned businesses previously ignored by equity investors.

FleetBoston's WEC assists startups and businesses gain access to capital, information, advocacy and other resources and matches women-owned businesses with the financing best suited to its stage in the business cycle.

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The WWBIC provides access to capital combined with high quality business education, business assistance programs, one-on-one mentoring and other financial services.

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Count-Me-In is an innovative online "lending and learning" microloan organization developing a more "woman appropriate" credit scoring technique.

- Banker's Community Development Corporation Loan Program (Bankers CDC) is a consortium of San Diego banks that pools funds to provide financing to small businesses. Its mission is to supply capital to businesses that do not qualify for traditional bank financing for business growth so that they may eventually qualify for conventional bank financing. Fifty percent of its loans are currently made to women business owners.

The financial world is charged with stimulating business development to achieve the rate of business formation necessary to sustain growth. Aligning lending institutions with the realities of a broader domestic business environment requires breaking down both real and perceived barriers to credit and equity investment for women, and an end to a one-size-fits-all approach to lending.

Women's participation in growing the U.S. economy has contributed greatly to the era of prosperity that we are now experiencing. Still serious capital gaps between current demand and lending practices remain. Failure to adequately capitalize this market puts the nation at risk for a slowdown in growth and productivity. Without increased access to credit, the danger inherent in inappropriately financing this productive segment of our economy is clear. Inequitable lending and equity investing in women-owned businesses will have a negative impact on our macroeconomy and impede the prospects for continued economic growth. Women-owned businesses need capital structure that will stimulate this robust market and lessen its vulnerability to the "last in, first out" cycle that negatively impacted women in the labor market during the last recession. Increased investment in this dynamic entrepreneurial sector of our economy is vital to continued prosperity.

Not taking women seriously as creators of wealth is a great opportunity lost.[9] This reports recommendations and programs should be viewed as a blueprint for duplicating lending and investment initiatives throughout the country that will narrow that capital gap and keep this lucrative market on its current course.

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Revision of Regulation B would allow banks to operate as effectively in the women's business lending market as they have in the home mortgage market, where collection of demographic data has opened lending to underserved communities.

Innovations in credit scoring models, specifically those that incorporate data relevant to women and women-owned businesses, would generate new growth opportunities.

As women-owned businesses continue to strive to gain the confidence of lenders, CAPs allow banks to make loans that would not be made without the reserve insurance pool that CAPs provide.

REPORT RECOMMENDATIONS

AMEND FEDERAL RESERVE REGULATION B – EQUAL CREDIT OPPORTUNITY ACT

Federal Reserve Regulation B is intended to encourage fairness by prohibiting lenders from collecting data regarding an applicant's gender or race, among other things. Despite its intent, its effect is to mask actual lending practices with regard to women and women-owned businesses. This regulation ought to be amended to allow the collection of demographic information from borrowers. This revision would allow banks to operate as effectively in the women's business lending market as they have in the home mortgage market, where collection of demographic data has opened lending to underserved communities. Without specific knowledge of the demographic composition of small-business borrowers, including those that apply but do not receive approval, the ability to systematically measure and monitor programs that advance women's business ownership participation is compromised.

CREATE NEW CREDIT SCORING MODELS

Innovations in credit scoring models, specifically those that incorporate data relevant to women and women-owned businesses, would generate new growth opportunities. Lenders will benefit from models that more accurately address lending risks associated with women-owned businesses by producing a better understanding of their market. The efficacy of this recommendation depends greatly on the implementation of the first recommendation, which would make gathering the necessary data possible.

IMPLEMENT A NATIONAL CAPITAL ACCESS PROGRAM

A National Capital Access Program (CAP) would create a reserve insurance pool that will allow banks to make loans that would not otherwise be made, thereby creating new financing opportunities for thousands of businesses. As women-owned businesses continue to strive to gain the confidence of lenders, CAPs allow banks to make loans that would not be made without the reserve insurance pool that CAPs provide. While women-owned businesses receive only 12 percent of all credit extended, under the CAP program in California, for example, 30 percent of loans go to minority- and women-owned businesses.[10]

EXPLOIT SECURITIZATION

Financial institutions could pool standardized small-business loans and sell them as securities to institutional investors. This would enable banks to increase liquidity, lower transaction costs and thus increase their ability to make additional loans. The use of securitization in combination with a National Capital Access Program (CAP) would encourage a new segment of lenders to specialize in this area. The need for specialty lenders, like those currently available for auto loans, exists because small-business loans require sophisticated personnel and resources to adequately analyze credit-worthiness. Securitization serves to increase the availability of funds for lending – first, by immediately returning the principal to the lender, and second, by releasing the reserve fund in advance of the lender's withdrawal from the program.

Under current regulations, CAP loan reserves must be held at the originating bank until program liquidation. Under securitization, the reserves are released when the bonds mature, usually in five to 10 years from issuance. These additional funds, up to 8 percent of the original loan amount, generate a loan dynamic multiplier estimated at 23 times. In addition to this large "reserve-release-multiplier" effect, the reserves themselves serve to vastly improve the bond rating agency's view of these securities. Under the rating systems in use at the major bond rating agencies, the combination of protections available would result in investment-grade ratings. The combination of high bond ratings at issuance, the multiplier effect of returning reserves to the available pool of funds, and the encouragement of specialty lenders for under-served small-business borrowers makes securitization a vigorous policy tool for encouraging economic growth.

Another risk mitigation innovation that could make investing in the emerging women's market attractive to individual and institutional investors is a financial equity guarantee insurance system. The reduced downside risk provided by such a system would enable and encourage equity investors to fund this emerging market.

INSTITUTIONALIZE THE ECONOMIC CENSUS, THE SURVEY OF WOMEN-OWNED BUSINESS ENTERPRISES, THE SURVEY OF MINORITY OWNED BUSINESS ENTERPRISES, THE CHARACTERISTICS OF BUSINESS OWNERS SURVEY AND THE SURVEY OF SMALL BUSINESS FINANCING.

Every five years the U. S. Census Bureau conducts the Economic Census. This is the only major source of facts about the structure and functioning of the nation's economy. Policymaking agendas of the federal government use the data especially in monitoring economic activity and providing assistance to businesses. As a part of the Economic Census, the Bureau issues its Survey of Minority-Owned Business Enterprises (SMOBE), Survey of Women-Owned Business Enterprises (SWOBE) and the Characteristics of Business Owners Survey (CBO). These surveys provide the only national data on selected economic, demographic, and sociological characteristics

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among minority, women, non-minority male, and all business owners and their businesses. The release this October of the 1997 data will mark only the sixth Economic Census that includes women and minority enterprises.

Following the release of the Economic Census and the various surveys, the Federal Reserve conducts its own examination of the data to more closely understand the finances of small businesses and the credit conditions they face.

Following the release of the Economic Census and the various surveys, the Federal Reserve conducts its own examination (co-funded by the Small Business Administration) of the data to more closely understand the finances of small businesses and the credit conditions they face. The Federal Reserve has conducted this Survey of Small Business Finances (SSBF) following the last three releases of the Economic Census.

Without these surveys, federal agencies like the SBA will not have the resources to determine the needs of the business sectors, and consequently, programs and ultimately entrepreneurs will suffer, placing our entire macroeconomy at risk.

While the U.S. Code (Sections 131, 191 and 224) directs the Census Bureau to take the Economic Census every five years, funding for these valuable programs, including SMOBE, SWOBE and CBO, are at the will of our legislators. The U.S. Congress should support these very important special census programs and include them when considering budget allocations. Without these surveys, federal agencies like the SBA will not have the resources to determine the needs of the business sectors, and consequently, programs and ultimately entrepreneurs will suffer, placing our entire macroeconomy at risk.

INTRODUCTION

The entrance of women into the marketplace has had an unparalleled impact on growth and productivity of the U.S. economy. Women's labor force participation revolutionized the work force and grew the economy in the 1970s, experiencing its greatest productivity growth in history.

This revolution is continuing now in the form of business ownership. Democratization of capital in the 1990s moved women from the upper rungs of the corporate ladder into the entrepreneurial marketplace, where they now own close to half of all businesses in the United States, taking part in bringing the economy into its greatest period of economic expansion in 30 years.

The Global Entrepreneurship Monitor (GEM) sponsored by the Kauffman Center for Entrepreneurial Leadership found a direct relationship between a country's level of entrepreneurial activity and its economic growth. Countries with a high number of startups have higher economic growth. Its report identified women business ownership as a key factor in stimulating and sustaining high levels of growth in the economy, stating: "It is clear that a major reason for the low startup rates among some countries is the lack of participation by women. Countries that wish to increase the level of start-up efforts may make major gains by helping women to become more involved."[11]

Heightened awareness of women's vital contribution to the marketplace is effecting fundamental change in financial institutions' lending practices. Increased flow of "smart money" into women-owned businesses will catalyze these new entrants in the entrepreneurial sector and accelerate productivity as a whole. The benefits of investment in this sector flow well beyond reducing lending inequities – they extend to our society as a whole. Greater financial independence lowers welfare roles and creates greater family security and social stability, positively impacting the collective well-being of society, and our economy, in turn.

Women business owners are a critical mass in the work force, generating wealth in our economy. The danger inherent in inappropriately financing this productive segment of our economy raises the specter of "last in, first out" dynamics that negatively affected women in the labor market during the last recession.

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The danger inherent in inappropriately financing this productive segment of our economy raises the specter of "last in, first out" dynamics that negatively affected women in the labor market during the last recession.

A number of distinctive financing initiatives have sprung up around the country, some in response to specific needs of underserved communities, some in pursuit of burgeoning new markets.

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Financial institutions are moving away from a "one size fits all" lending policy, and are demonstrating a willingness to engage in creative loan packaging that makes lending to small businesses viable and profitable.

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A trend in "lending and learning" programs is removing barriers to capital and making small-business lending cost-effective.

Recommendations for Growing Women's Businesses, published by the National Women's Business Council in 1997, agrees. "The growing success of women-owned businesses illustrates the opportunity that we have to invest in growing women's businesses. We have much at stake and much to gain from identifying and implementing effective strategies to invest in women-owned businesses and provide an infrastructure that will encourage their continued growth and development. Initial government programs have produced remarkable results."[12]

A number of distinctive financing initiatives have sprung up around the country, some in response to specific needs of underserved communities, some in pursuit of burgeoning new markets. This paper describes a selection of programs and lending practices introduced by banks, governmental agencies, and public/private initiatives and reviews their outstanding characteristics.

Financial institutions are moving away from a "one size fits all" lending policy, and are demonstrating a willingness to engage in creative loan packaging that makes lending to small businesses viable and profitable. A trend in "lending and learning" programs is removing barriers to capital and making small-business lending cost-effective.

Capital access for women business owners has improved over the past decade, due in part to a number of successful financial strategies and innovative practices. Still, serious capital gaps remain between current demand and lending practices. This brief provides a historical overview, points out where gaps continue to exist and provides recommendations for closing them.

Women Business Owners' Approach To Business And Financing

Firms headed by women provide one out of every four private-sector jobs.[13] At year-end 1992, women-owned businesses in the U.S. were estimated to employ more people than the Fortune 500 companies combined.[14] It is estimated that women-owned firms will represent half of all U.S. small businesses by the year 2005.[15] The 1999 "Key Facts About Women-Owned Businesses" compiled by the National Foundation for Women Business Owners found:[16]

- As of 1999, there were 9.1 million women-owned businesses in the U.S., generating over $3.6 trillion in sales, and employing 27.5 million workers.
- Since 1987, the number of women-owned firms in the U.S. has doubled, employment has increased four-fold, and revenues have risen five-fold.
- In the U.S., women-owned firms represent 38 percent of all firms.
- While as of 1998, 52 percent of women business owners in the U.S. had bank credit, women business owners' levels of credit remain lower than those for male business owners.
- 62 percent of Caucasian women business owners have bank credit, compared to 50 percent of Hispanic, 45 percent of Asian, 42 percent of Native American and 38 percent of black women business owners.
- Women-owned firms are found across all industries. Women-owned firms that experienced the greatest growth between 1992 and 1999 were in the construction, wholesale trade, transportation, agribusiness and manufacturing industries.
- Notwithstanding lower levels of credit, women-owned businesses are as likely to stay in business as the average firm.
- As of 1996, 1 in 8 women-owned firms in the U.S. were owned by women of color. The number of minority women-owned firms increased by 153 percent between 1987 and 1996 – three times faster than the overall business growth rate.

Firms headed by women provide one out of every four private-sector jobs.

Women-owned firms that experienced the greatest growth between 1992 and 1999 were in the construction, wholesale trade, transportation, agribusiness and manufacturing industries.

The number of minority women-owned firms increased by 153 percent between 1987 and 1996 – three times faster than the overall business growth rate.

A survey of professional women who left large companies to become entrepreneurs found that women measured success in terms of self-fulfillment and goal achievement.

Women view their businesses as "cooperative networks of relationships," rather than separate economic units.

The emphasis placed upon relationships by women entrepreneurs in their business lives would seem compatible with lenders' long-standing practice of using relationships to form credit decisions involving informationally opaque small businesses.

- Women are coming into business ownership with higher levels of work experience. Twenty years ago, 11 percent of women who started firms had senior management experience. Over the past 10 years that figure has doubled to 22 percent.

- Women-owned businesses in the U.S. are more likely to be online and have a home page for their businesses than businesses owned by men.

A survey of professional women who left large companies to become entrepreneurs found that women measured success in terms of self-fulfillment and goal achievement and considered these factors more important than profits and business growth. Their desire for self-determination and balance between work and family played a greater role in motivating these women to become entrepreneurs than did career advancement in corporate life.[17]

Women entrepreneurs manage the growth of their businesses aimed at achieving those goals.[18] They "integrate" their businesses into their lives, placing high value on relationships. Women view their businesses as "cooperative networks of relationships," rather than separate economic units, and use consensus-building approaches to decide on policy and practice.[19,20] There is also evidence that women are more willing to hire a diverse workforce and offer creative benefits to employees. Women give higher priority to organizational and social efficiency, and emphasize internal communication more than their male counterparts.[21]

The emphasis placed upon relationships by women entrepreneurs in their business lives would seem compatible with lenders' long-standing practice of using relationships to form credit decisions involving informationally opaque small businesses, i.e. businesses that have higher capital costs or simply do not qualify for sufficient financing to continue operations.[22] "The research using U.S. data generally found that small businesses with stronger banking relationships received loans with lower rates and fewer collateral requirements, had less dependence on trade credit, enjoyed greater credit availability, and more protection against the interest rate cycle than other small businesses."[23] Yet, relationships between lending institutions and women entrepreneurs have traditionally been strained, and until recently lenders have tended to overestimate the risk involved in lending to women entrepreneurs. To complicate matters, the lending process itself has become more centralized and automated.

Although small-business entrepreneurs of both sexes face challenges, there are some areas in which women appear to encounter particular difficulty.

- Women tend to establish small, local, low-collateral enterprises in the service and retail sectors and thus have difficulty gathering startup capital.
- Women tend to apply for smaller loans of the type considered by banks to be money-losers.
- Women are often unaware of the credit sources and information networks available to them.
- Occupational segregation has left women entrepreneurs less experienced professionally, particularly in management, supervision and access to finance.[24]

These challenges are being met in a number of ways. SBA programs guaranteeing small-business loans objectively eliminate the majority of risk that lenders associate with loans to women-owned businesses. Programs that create incentives for lenders to provide funding are now available. Special marketing programs focus loan officers on the particular needs of women business owners and help lenders avoid incidents of insensitivity. Programs that provide intensive education in business management and technical assistance give even the smallest of women business owners management skills as well as financing.

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SBA programs guaranteeing small-business loans objectively eliminate the majority of risk that lenders associate with loans to women-owned businesses.

Programs that provide intensive education in business management and technical assistance give even the smallest of women business owners management skills as well as financing.

Home-based businesses are also thriving in the hands of women.

Women run 3.5 million home-based businesses, providing part- and full-time employment to almost 14 million people.

More than 60 percent of women's businesses were home-based operations when they were first established.

The Size and Scope of Women-Owned Businesses

From 1978-1998, women's labor force participation increased from 49.6 percent to 60.4 percent.[25] The enhanced skill women attained from this broadened business experience translated into higher rates of entrepreneurship and small-business formation. Women today own 9.1 million of the roughly 24 million small businesses in this country. This represents 38 percent of the small businesses operating in the United States.[26] These firms employ about 52 percent of the private-sector workforce and generate 51 percent of private-sector output.[27] Women-owned businesses provide 27.5 million jobs to the U.S. economy and generate over $3.6 trillion in sales.

These numbers are staggering. In 1972, women owned less than 5 percent of all businesses, producing less than 1 percent of total sales.[28] By 1992, women-owned businesses accounted for 34 percent of all businesses and produced almost 20 percent of total sales.[29] Since 1987, the number of women-owned firms has doubled, employment has increased four times, and revenues have quintupled.[30] (Table 1)

Home-based businesses are also thriving in the hands of women. As of 1992, women owned nearly 37 percent of home-based firms. Women run 3.5 million home-based businesses, providing part- and full-time employment to almost 14 million people.[31] More than 60 percent of women's businesses were home-based operations when they were first established.[32]

Table 1
Growth of Women-owned Businesses, 1982-1999[1]

Number of Firms				Percent Change		
1982	1987	1992	1999[2]	1982-1987	1987-1992	1992-1999
2,842,359	4,476,616	6,406,715	9,100,000	57.5%	43.1%	42.0%

Receipts of Firms (In $U.S. Billions)				Percent Change		
1982	1987	1992	1999[2]	1982-1987	1987-1992	1992-1999
240.8	681.4	1,574	3,600	183.0%	131.0%	128.7%

Source: Office of Advocacy, U.S. Small Business Administration; U.S. Department of Commerce, Bureau of the Census, 1992 Economic Census, Women-owned Businesses.
1 Numbers include C Corporations
2 1999 Numbers from National Foundation for Women Business Owners.

In 1997, 3.9 million women were primarily self-employed, representing 37 percent of all Americans claiming some self-employment earnings and an increase of 48 percent from 1983.[33] The number of self-employed men increased just 1.5 percent during that same 15 year period. By 2005, about 4.7 million women will be primarily self-employed. This will represent an increase of 77 percent since 1983, compared with a 6 percent increase in self-employed men (Table 2).

Table 2
Number of Self Employed Women, 1983-2005

Year	Number (Thousands)	As a Percent of Total Self Employed
1983	2,649	29.2%
1984	2,770	29.7%
1985	2,817	30.4%
1986	2,829	30.3%
1987	3,007	31.2%
1988	3,179	31.9%
1989	3,279	32.8%
1990	3,349	33.2%

Source: Office of Advocacy, U.S. Small Business Administration, "Women in Business," 1998; Bureau of Labor Statistics, 1998-2005. Projections by the Office of Economic Research, Office of Advocacy.

Women-owned sole proprietorships are also rising rapidly. In 2000, women will own 7.1 million sole-proprietorships, 35 percent of all U.S. sole proprietorships, up 33 percent from the early 1990s.[34]

Franchises owned by women seem to mirror their overall business involvement. A 1990 survey found that women, at least partially, owned just under one-third of all franchises.[35] About 72 percent of women-owned businesses are in the service and retail trade industries and women-owned firms are growing fastest in the construction, wholesale trade and transportation industries (Tables 3 and 4).

In terms of revenue, women averaged 47 percent of men's receipts in 1990. That number is projected to grow to above 51 percent in 2000.[36]

This new wave of women business owners is also inclined to take advantage of technology. According to the Insight Research

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Table 3
Number of Women-owned Firms by Industry, 1992

Industry	Percent	Number of Businesses
Total	**100.0%**	**5,888,883**
Services	53.6%	3,158,444
Retail Trade	18.6%	1,093,342
Finance, Insurance, and Real Estate	10.2%	602,802
Construction	3.1%	183,695
Wholesale Trade	2.6%	154,542
Manufacturing	2.6%	152,346
Transportation and Public Utilities	2.4%	141,623
Agricultural Services, Forestry, and Fishing	1.4%	82,526
Mining	0.6%	37,205
Industries not Classified	4.8%	282,358

Source: U.S. Department of Commerce, Bureau of the Census, 1992 Economic Census, Women-owned Businesses

Table 4
Fastest Growing Women-owned Firms by Industry, 1987-1992

Industry	Percent
Total	43.1%
Construction	94.8%
Wholesale Trade	87.3%
Transportation and Public Utilities	77.5%
Agricultural Services, Forestry, and Fishing	72.0%
Manufacturing	62.1%
Mining	40.8%
Services	39.2%
Finance, Insurance, and Real Estate	37.8%
Retail Trade	36.9%
Industries not Classified	52.8%

Source: U.S. Department of Commerce, Bureau of the Census, 1992 Economic Census, Women-owned Businesses.

Table 5
Number of Women-owned Firms by State, 1992

State	Number of Firms	Percent of Nation
United States Total	5,888,883	100.0%
California	801,487	13.6%
Texas	414,179	7.0%
New York	395,944	6.7%
Florida	352,048	6.0%
Illinois	250,613	4.3%
Pennsylvania	227,500	3.9%
Ohio	224,693	3.8%
Michigan	193,820	3.3%
New Jersey	164,798	2.8%
Massachusetts	147,572	2.5%
Georgia	143,045	2.4%
North Carolina	142,516	2.4%
Virginia	138,494	2.4%
Washington	136,337	2.3%
Indiana	125,411	2.1%
Minnesota	124,143	2.1%
Maryland	121,777	2.1%
Colorado	121,659	2.1%
Missouri	117,885	2.0%
Tennessee	101,134	1.7%
Wisconsin	99,357	1.7%
Arizona	93,300	1.6%
Oregon	87,970	1.5%
Oklahoma	82,894	1.4%
Connecticut	79,931	1.4%
Louisiana	76,849	1.3%
Kentucky	74,280	1.3%
Alabama	71,466	1.2%
Iowa	71,040	1.2%
Kansas	66,429	1.1%
South Carolina	64,812	1.1%
Arkansas	50,440	0.9%
Utah	45,626	0.8%
Nebraska	43,637	0.7%
Mississippi	40,879	0.7%
New Mexico	40,636	0.7%
Maine	35,260	0.6%
Nevada	32,430	0.6%
New Hampshire	31,492	0.5%
West Virginia	30,644	0.5%
Idaho	29,946	0.5%
Hawaii	29,743	0.5%
Montana	25,310	0.4%
Rhode Island	21,353	0.4%
Vermont	21,033	0.4%
Alaska	19,380	0.3%
South Dakota	18,215	0.3%
North Dakota	15,355	0.3%
Delaware	14,904	0.3%
Wyoming	14,617	0.2%
District of Columbia	14,599	0.2%

Source: U.S. Department of Commerce, Bureau of the Census, 1992 Economic Census, Women-Owned Businesses

Women-owned businesses are a major force in the U.S. economy, but to participate fully in its growth, they must have greater access to capital.

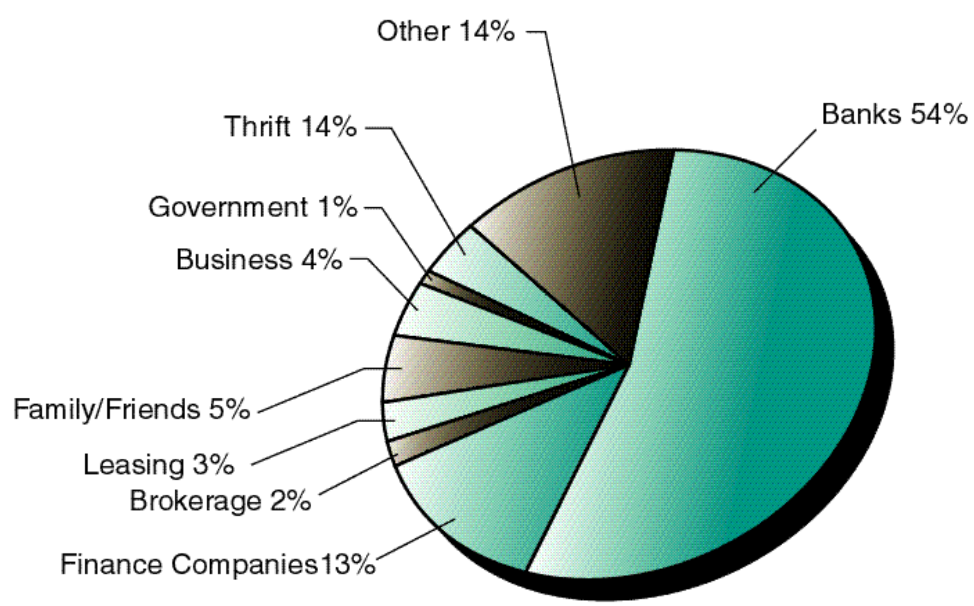
Commercial banks represent a decreasing share of total financial assets, and their role in small-business financing, while significant, is decreasing as competition in financial services increases.

THE CURRENT LENDING ENVIRONMENT

Women-owned businesses are a major force in the U.S. economy, but to participate fully in its growth, they must have greater access to capital. Overall, 1993 National Survey of Small Business Finances statistics regarding credit extended to small businesses show that women receive only 12 percent of all credit provided to small businesses in the U.S. economy.[37] Although that figure was up from 8 percent in 1987, it points up the significant growth potential that remains in the market for lending to women business owners, a market that makes up 38 percent of all businesses.

Commercial banks represent a decreasing share of total financial assets, and their role in small-business financing, while significant, is decreasing as competition in financial services increases. The National Survey of Small Business Finances discovered that between 1987-1993, commercial banks' and thrift institutions' market share of

Figure 1
Suppliers of Small-Business Debt Financing
Percent of Total Debt Outstanding, 1993



Source: Office of the President, "The State of Small Business: A Report of the President, 1997. USGPO 1998; The Ford Foundation, SRI International, "Changing Financial Markets: Implications for Small Business Financing."

small-business loans fell from 70.6 percent to 65.3 percent.[38] In 1993, banks' outstanding small-business debt was just 54 percent (Figure 1). Still, 50 percent of women-owned firms sought traditional loans to finance their businesses and 32 percent of these loans were from a commercial bank. There is concern that as banks become more centralized, lending will become increasingly depersonalized, negatively impacting lending to women further, while mergers and regulations could restrict the amount of credit provided to small businesses in general.

High proportions of women are not well served by banks for their capital needs. While nearly three-fourths of women-owned firms are able to access credit in one form or another, about 60 percent of these firms used nontraditional finance sources such as finance companies for their business credit needs.[39] This includes the more than 42 percent of women who used personal credit cards to finance their businesses. This could subject women to unfair lending practices as well as artificially high interest rates and capital costs for their businesses.

Traditional loans most frequently accessed in 1993 were vehicle loans, used by nearly 22 percent of women-owned firms.[40] Lines of credit accessed by 18 percent of women-owned firms and equipment loans used by 12 percent of firms were the next most frequently accessed traditional loans. While 95 percent of women-owned firms with between 100 and 499 employees used traditional loans, only one-third of firms with no employees accessed traditional loans.

Five percent fewer women than men – 32 percent versus 37 percent – used commercial banks to finance their businesses in 1993.[41] Only 18 percent of women-owned firms with no employees obtained credit from commercial banks. The same percent of women in 1994 used bank loans to expand their business, compared to over 45 percent of men.

By 1998, only 52 percent of women-owned firms obtained bank credit to finance their businesses.[42] Of those firms, one-third, 34 percent, had bank credit greater than $50,000 while 58 percent out of 59 percent of male business owners with bank credit enjoyed credit of that amount.[43] That same year, 7 percent of women-owned businesses had bank credit over $500,000, compared with more than double that amount, 16 percent, for male business owners.[44]

Though banks' market share of small-business loans fell from 1987 to 1993, credit extended to women rose 5 percent from – 50 percent to 55 percent – in that same time period.[45] This suggests that some banks and other financial service institutions are beginning to recognize the growing market opportunity of women-owned businesses.

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While women business owners' access to traditional sources of financing is improving, disparities in levels of financing and favorableness of terms remain. Minority women hold less bank credit than white women do, however, with only 38 percent of black women holding bank credit.[46]

Family and friends remain a common source of financing for women-owned businesses, as are loans from finance companies. Ten percent of women business owners rely on each of these sources.[47]

Financial Institutions Meeting the Demand

Notwithstanding the value that lenders place on gathering information that is factored into credit decisions, a 1992 survey of women business owners reported that two-thirds experienced difficulty working with their financial institutions. Women business owners were 22 percent more likely to report problems dealing with their bank than businesses at large. One-third of women business owners surveyed perceived some degree of gender-based discrimination.[48]

In 1993, the Federal Reserve Bank of Chicago and the Women's Business Development Center of Chicago conducted informal interviews and focus groups with women small-business owners and lenders in the region. The women who participated in the study reported frustration with various aspects of the lending experience, which they believed reflected reluctance on the part of lenders to provide them with access to appropriate levels of credit.

Women cited two primary reasons for switching lenders: delays in processing loan requests and assignment to inexperienced loan officers who lacked influence in the organization.[49] Women expressed criticism of gender-related remarks unrelated to the business or loan application process, which created the impression that gender-bias might influence the credit decision. They were disturbed to learn that the short-term financial disruptions of divorce were treated as long-term indicators of their credit-worthiness.[50] Women business owners opined that their relationships with lenders should be collaborative, not adversarial. They perceived that men were more likely to receive competitively priced financial services geared toward retaining them as long-term customers. Finally, women business owners perceived that banks were trying to maximize profits up front in their dealings with them.

Bank participants in the study acknowledged offering products and services on better terms to men, but suggested the reason was probably that men were more aggressive negotiators for such services.[51]

Because lending to startups was agreed to be a difficult area, both the women and lenders supported character lending.[52] Yet, the discretion inherent in this type of lending raised concerns about the potential for inequitable treatment. The concerns expressed seem representative of the concerns of women entrepreneurs across the nation. The good

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The 1992 numbers from the National Foundation for Women Business Owners documenting both the growth of women-owned enterprises and their problems in obtaining financing shocked the banks into action.

Wells Fargo was one of the first major banks to visibly and aggressively campaign for the women's business credit market.

In 1995, it committed to lending $1 billion over three years to women's businesses. In 1996, that figure was raised to $10 billion over the course of 10 years.

news is that these concerns have been heard, if not universally addressed. According to Lucy Reid, former Executive Vice President of Wells Fargo Bank, this improvement is no accident.

"The 1992 numbers from the National Foundation for Women Business Owners documenting both the growth of women-owned enterprises and their problems in obtaining financing shocked the banks, including ours, into action. At Wells Fargo, we were surprised to learn that women perceived that they had less access to capital than men did. Since women business owners are as financially responsible as male business owners, we saw an opportunity and we stepped up our outreach efforts."[53] Indeed, Wells Fargo was one of the first major banks to visibly and aggressively campaign for the women's business credit market. In 1995, it committed to lending $1 billion over three years to women's businesses. In 1996, that figure was raised to $10 billion over the course of 10 years.

CREATIVE SOLUTIONS: LENDING AND LEARNING

The case studies highlighted throughout this report illustrate innovative lending and learning programs that lenders, government agencies and private entities have used to address the needs of women entrepreneurs. Among the elements identified as key to the success of many of these programs are the combinations of financial, managerial and technical assistance afforded to loan recipients that maximize the success potential of their businesses, and promoting community-lender partnerships.

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CASE STUDY

FLEETBOSTON FINANCIAL

One bank that has set an example in its efforts to establish relationships with women business owners is FleetBoston Financial.[54] Its profit-driven strategy to seek out new growth markets led it to the women's business market, which it found to be large, profitable and growing. In 1997, Fleet (the pre-merger BankBoston) sought to create an internal program that would determine women business owners' needs, provide support and match financial products to their current stage of business. Positioned as a segment focus of the small-business division, the purpose of the new department was to leverage the bank's available resources and channel them toward existing and prospective women clients. Its goal was to become the bank of choice for women entrepreneurs.

Fleet launched the Women Entrepreneurs' Connection, a small-business banking program that offered women business owners a spectrum of products and services geared for business success.

The bank's experience and research revealed that, in general, women business owners highly value information resources. It also discovered that there were enormous resources available to women entrepreneurs, but no one easy route to access them. In June 1998, Fleet launched the Women Entrepreneurs' Connection ("The Connection"), a small-business banking program that offered women business owners a spectrum of products and services geared for business success. The program was initiated to assist startups as well as established businesses gain access to capital, information, advocacy and other resources for women-owned businesses. In an effort to match women-owned businesses with the financing best suited to its stage in the business cycle, The Connection aggressively markets its services within the bank as well as in the women's business market. It educates lenders within Fleet on successful lending practices to women business owners while seeking opportunities to work with women entrepreneurs. The Connection

Fleet recently earmarked $2 billion as a financing initiative to support the growth of women-owned businesses.

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Beyond educating lenders within the bank about successful lending practices to women business owners, The Connection has partnered with organizations that provide technical assistance and business education to women.

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guides women entrepreneurs to the appropriate resources as their businesses grow and their needs expand.

Fleet recently earmarked $2 billion as a financing initiative to support the growth of women-owned businesses. The bank found that many women used credit cards under circumstances that a bank loan would be available. The Connection team functions as a facilitator in the loan process and may obtain reconsideration for applications rejected on the basis of credit scoring. It also acts as a conduit to provide women entrepreneurs with information, technical assistance and relationships to benefit their entrepreneurial efforts. Accordingly, The Connection may intervene where credit has been denied and work with women to develop a plan for getting to credit-ready status. The Connection works with Fleet's Community Development Group to review loans rejected on the basis of credit scoring and, under some circumstances, aid in getting a loan approved through reconsideration under a special service loan program known as a "second look."

The Connection opens channels to equity financing in situations where women are burdened by debt but poised to grow, and introduces angel investors to the banks' venture capital managers. It is partnered with both Fleet Development Ventures, an urban investment bank that provides equity capital to women-owned businesses and other underserved markets, and with a number of venture funds established to make equity investments solely in women-owned businesses, such as the Women's Growth Capital Fund, the Isabella Fund and others.

Beyond educating lenders within the bank about successful lending practices to women business owners, The Connection has partnered with organizations that provide technical assistance and business education to women. One such partner is the Center for Women and Enterprise, a business development educational center in Boston built on the model of adult education centers. It also supports the "Commonwealth Institute" and their efforts to work with established women-owned businesses to help them grow their businesses and succeed financially. The Connection encourages the use of advisory boards and tries to facilitate networks from which they may be drawn. By creating the kinds of networks that male business owners have traditionally benefited from, women can also build connections to sources of funding.

Women of color are starting businesses at three times the rate of others. In light of this statistic, the bank introduced a forum for women of color to express their specific needs. It also established an advisory board composed of women of color and the bank sponsors special networking events for this subgroup.

Bank clients are educated about products for early-stage companies, such as loans under $100,000, and offered advice regarding cash flow, managing profitability, or other topics. They are taught to manage cash flow and how to grow a business. In some instances, The Connection finds a vendor for a loan applicant who has been rejected. Although the primary focus of the Connection is not on startups, there are some products within the program for early-stage companies (first six months). For loans less than $100,000 there is a credit product, Business Credit Express, that does not require business financials, but is more analogous to personal credit card scoring. Even where a loan application is rejected, the bank may find other sources for the loan. Borrowers are thus provided with a "road map" as the bank works with the borrower to move forward.

The Connection has also forged a partnership with the Center for Women and Enterprise (CWE), a regional economic development corporation designed to empower women to become economically self-sufficient through entrepreneurship. CWE offers courses, workshops, one-on-one consulting, loan packaging and microlending services on a sliding scale basis. It provides a continuum of educational services for each level of the business life cycle. CWE targets low- to moderate-income women though its programs and services are available to men and women. CWE works with banks and the government, particularly Fleet and the SBA to obtain bank loans for CWE clients.

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The current environment of bank consolidation and mergers raises concern that the supply of credit available to small businesses may be reduced.

In theory, it can be argued that smaller institutions can pick up the credits cast off by larger lenders. In practice, however, the loss of lending options for women's small businesses is very real.

Smaller banks, expected to pick up loans displaced by larger institutions, are themselves suffering a liquidity crisis.

WOMEN AND CHANGING DYNAMICS IN FINANCIAL MARKETS

BANK CONSOLIDATION

The current environment of bank consolidation and mergers raises concern that the supply of credit available to small businesses may be reduced. This concern exists because of the reduction in the number of lending institutions, and because "large organizationally complex institutions may be inefficient at providing these relationship-based services. Similarly there may be scale or organizational diseconomies in making relationship-based loans because of agency costs in monitoring relationship-based information generated by local loans."[55]

In theory, it can be argued that smaller institutions can pick up the credits cast off by larger lenders.[56] In practice, however, the loss of lending options for women's small businesses is very real, and the outsourcing of the credit function to lenders' central offices results in the disruption of highly valued lending relationships.[57]

"The process has become progressively more standardized and mechanical, more dependent on documentation, analytical formulas, and rigid rules as opposed to examiner judgment. This may have disproportionately affected small-business lending, which often takes the form of character and cash-flow loans, requiring judgment, and where the bank's return comes through knowledge and a working relationship with the borrower."[58]

LIQUIDITY CRISIS

Smaller banks, expected to pick up loans displaced by larger institutions, are themselves suffering a liquidity crisis. Banks are finding themselves faced with a shrinking core of deposits and increased loan demand.[59] Loan demand continues to outpace deposit growth. In 1998 the loan-to-deposit ratio at commercial banks hit an all-time high of 87.97 percent, up from an average of 65 percent 20 years ago.

"The steady funding shift away from core deposits presents a daunting challenge for community banks that have traditionally relied more heavily on core deposit funding than larger banks.

According to the FDIC, at year-end 1998, 72 percent of aggregate community bank assets were funded with core deposits compared to 43 percent at large banks. This reflects large banks' greater use of wholesale funding alternatives and access to capital market instruments. Yet a consumer appetite for deposit products has been waning for some time. The FDIC notes that falling personal savings rates, higher yielding investment alternatives like mutual funds, and demographic shifts away from rural communities have all eaten into core deposit bases, leaving banks to consider alternative funding sources … For community banks…funding options tend to be limited. Because of high fixed costs, community banks may find it cost-prohibitive to tap capital markets through securitizations or public debt and equity offerings."[60]

SECURITIZATION

One solution to this liquidity crisis might be securitization of the small-business loans so in demand by smaller lenders. In asset markets such as credit card receivables, home mortgages, and car loans, active secondary markets allow lenders to profit from economies of scale without having to add risky loans to their balance sheets.[61] Securitization enables lenders to improve their capital return by substituting off balance-sheet, fee-based income sources with direct lending generating added liquidity and greater balance sheet diversity. Just as in the home mortgage market, borrowers of securitized loans would also enjoy lower financing costs.

Securitization is facilitated by standardized loan writing criteria and information technology that makes estimating default probabilities and prepayment patterns easier.[62] "Widespread securitization of small-business loans is unlikely to occur until underwriting standards and loan documentation for these loans become more uniform and better information for estimating the risk of loss becomes available."[63] The use of credit scoring systems – literally a credit "score" based on a statistically developed checklist – in the origination of small-business loans is being examined to address the information gap in small-business lending that currently inhibits the securitization of small-business loans.

Another risk mitigation innovation that could make investing in the emerging women's market attractive to individual and institutional investors is a financial equity guarantee insurance system. The reduced the downside risk provided by such a system would enable and encourage equity investors to fund this emerging market.

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Credit scoring derives a single quantitative measure – the score – from a vast statistical sampling of past borrowers in order to predict the future payment performance of an individual loan applicant.

Bankers argue that the scorecard is objective, while critics argue that credit scoring models discriminate by assessing low- and moderate-income applicants against a pool of more affluent borrowers.

Credit scoring creates a roadblock for women trying to start small businesses who are unable to show recent income statements because they interrupted careers to care for children or elderly parents, or whose credit has always been in the name of a spouse.

CREDIT SCORING

Several factors set the call for credit scoring into motion. Banks found processing small-business loan applications to be labor intensive and time consuming. Small-business loan requests were insufficient to make them cost effective. Banks were faced with the choice of not offering small-business loans altogether or charging substantial fees regardless of the size of the loan. These factors moved banks to centralize the process, distancing lender and borrower even more.

Credit scoring, an automated method that analyzes a large sample of past borrowers to calculate the probability that a loan applicant with certain specific characteristics will default, is of relatively recent origin, and only took hold at major U.S. lending institutions in the late 1990s.[64] Credit scoring derives a single quantitative measure – the score – from a vast statistical sampling of past borrowers in order to predict the future payment performance of an individual loan applicant.[65] A credit score measures a borrower's propensity to repay the loan. The propensity to repay – "I would pay you back if I could" – is different than the capacity to repay. It is the propensity to repay that is measured. How one performs with one's personal credit is a highly accurate indicator of the likelihood of repayment of a small-business loan.

Bankers argue that the scorecard is objective, while critics argue that credit scoring models discriminate by assessing low- and moderate-income applicants against a pool of more affluent borrowers.[66,67] Credit scoring makes small-business lending more attractive to larger lenders because the probability of default for a given applicant can be predicted fairly reliably, and variations in risk assessment across loan officers or by a single loan officer is eliminated over time.[68] Still, there is concern that lenders will substitute scoring for relationships with small businesses. "This relationship is especially important for firms that do not have formal business plans or audited financial statements typically used in traditional underwriting of commercial loans."[69]

In assessing credit-worthiness, credit performance information far outweighs financial statement information. The particular difficulty faced by women is often dictated by social circumstance. A woman whose credit has always been in the name of a spouse would be unable to obtain commercial funding, even though she may be a reliable, credit-worthy applicant. The same holds true for women who are unable to show recent income statements because they interrupted careers to care for children or elderly parents. In these cases, credit scoring creates a roadblock for women trying to start small businesses.

CASE STUDY

COUNT-ME-IN FOR WOMEN'S ECONOMIC INDEPENDENCE

Another successful lending program that has focused on improving access to credit by streamlining and expediting the loan process and approval criteria is Count-Me-In For Women's Economic Independence (Count-Me-In) an innovative online "lending and learning" microloan organization. Count-Me-In is dedicated to strengthening the position of women in the economy. This national nonprofit organization provides small loans to women who are not qualified, or fear applying, for conventional bank loans. Count-Me-In seeks to raise a loan fund of $25 million through $25 donations from one million groups of five women: $5 for each woman in the group.

The fund addresses systemic challenges women face in their dealings with traditional lending institutions that do not account for the realities of women's lives today. Count-Me-In raises money from women and makes loans to women for their businesses, but does not rely on traditional credit scoring methods to assess creditworthiness. This new source of women-generated money will in turn be loaned to other women for qualifying businesses.

As part of this effort, Count-Me-In is developing a viable, reliable and predictive credit-scoring technique that measures a woman's economic life, personal experience and business development potential in evaluating eligibility for small-business loans. This new model will assess credit-worthiness more accurately by including information regarding specific experiences that impacted the applicant's economic life, such as divorce, extended child or parent caretaker responsibilities, lack of personal credit or credit acquired in the name of a spouse. Its nonprofit status allows Count-Me-In to collect and track data otherwise prohibited under Federal Reserve Regulation B. To design this new credit-scoring model, Count-Me-In has assembled a nationwide team that includes loan officers from women's business centers, private banks, the SBA, and Community Development banks.

The new credit scoring process will supplement traditional credit scoring questions with additional questions regarding experience in the business, family participation, and goals. The credit scoring model provides a review of the women's credit history as used in traditional methods and goes a step further by giving her points for her previous work experience in the same industry as her business, previous experience in making and selling the product, completion of

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a business plan, and a support system to help her implement the business.

The credit scoring model was developed in consultation with Fair Isaac, the leading developer of traditional credit scoring systems. Six different software products are used to receive and process the application with new data being collected for statistical analysis by the organization. A back office is being provided under contract with American Express Business Financial Services with all of the traditional financial discipline applied to the loan reviews. Count-Me-In must make 2000 loans to establish the statistical base to review the credit scoring system and determine which questions are predicative of women's repayment history.

For many women, securing financing to start their own businesses is a challenge. The smaller sums of money that women often seek frequently make them unattractive applicants in the eyes of conventional lenders. The goal of Count-Me-In for Women's Economic Independence is to give women tools and economic support that will enable them to create their own financial opportunities.

The smaller sums of money that women often seek frequently make them unattractive applicants in the eyes of conventional lenders.

FEDERAL RESERVE REGULATION B

In credit scoring settings, loans may be flatly denied to businesses whose scores do not fall within the lender's bandwidth. Discretionary, relationship-based settings allow other factors to be taken into consideration. Critics argue that credit scoring creates a "double whammy" for women-owned businesses because it is non-relationship based and the law precludes financial institutions from collecting statistical information about the propensity of women businesses owners to repay loans. This restriction is imposed by Federal Reserve Regulation B (Reg. B), passed by the Board of Governors of the Federal Reserve in 1977 to comply with the Equal Credit Opportunity Act Amendment of 1976. That act provides that "a creditor shall not inquire about the sex of an applicant."[70] There is a similar provision regarding race. Initially, it was thought that such action would eliminate discrimination among lenders by creating a color and gender-blind lending market. However, the effect of this regulation has been to prohibit lenders from collecting important demographic data about their borrowers, thereby, albeit unintentionally, limiting lenders' ability to target underserved groups.[71] The revision of Regulation B would allow lenders to gather information valuable in designing financial innovations targeted to this market.

Critics argue that credit scoring creates a "double whammy" for women-owned businesses because it is non-relationship based and the law precludes financial institutions from collecting statistical information about the propensity of women businesses owners to repay loans.

The revision of Regulation B would allow lenders to gather information valuable in designing financial innovations targeted to this market.

LOAN RE-EVALUATION OR "SECOND LOOK" POLICIES

Due to the problems associated with eliminating the "relationship" aspect of the lending process, some progressive lenders have instituted a "second look" procedure to evaluate prospective borrowers who were not given the "green light" by the credit scoring process.

Under a "second look" procedure, borrowers rejected under credit scoring submit supplemental information. Analyzing the borrower's business prospects as well as the character of the person enables banks to make more loans, increasing their own business while being more responsive to the needs of their local market.

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Analyzing the borrower's business prospects as well as the character of the person enables banks to make more loans, increasing their own business while being more responsive to the needs of their local market.

Lenders have discovered that microenterprises become quite successful when these loans are combined with technical assistance and business training.

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Microloan borrowers are often just beginning to establish business credit, thus interest rates are similar to or lower than other business loans and usually require less collateral.

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Microenterprise development programs provide credit, training and technical assistance to individuals and groups seeking loans below the lending "radar" of conventional financial institutions.

MICROLENDERS

Microlenders provide microloans of several hundred dollars to $50,000 to microenterprises, the smallest form of business. Microloans are generally used for working capital or to purchase inventory, computers and other business equipment. Microloans create work, income and assets for businesses that might otherwise fail.

Until recently, microloans were thought to be money-losing propositions, however, lenders have discovered that microenterprises become quite successful when these loans are combined with technical assistance and business training. Some 49 percent of microbusinesses that receive microloans are still in business five years later.[72]

Lenders use a completely different set of approval criteria for microloans.[73] Microloan borrowers are often just beginning to establish business credit, thus interest rates are similar to or lower than other business loans and usually require less collateral. Microenterprise development programs provide credit, training and technical assistance to individuals and groups seeking loans below the lending "radar" of conventional financial institutions.

The most successful and widely duplicated microenterprise lending model of the past few decades is that of the Grameen Bank of Bangladesh. That program is targeted at the rural poor. The loans are made under a "peer lending" model, requiring all members of a loan group to repay the loan before additional loans are made. The Grameen Bank has lent $2.6 billion to 2.4 million borrowers since 1976. Of those loans 95 percent were to women, and the bank has seen a remarkable 95 percent repayment rate.[74] There are 350 microenterprise programs and more than two million low-income microentrepreneurs in the United States today.

CASE STUDY

THE WISCONSIN WOMEN'S BUSINESS INITIATIVE CORPORATION

A STATEWIDE ECONOMIC DEVELOPMENT CORPORATION, BUSINESS INCUBATOR AND MICROLENDER

The Wisconsin Women's Business Initiative Corporation (WWBIC) is a statewide economic development corporation certified as a Women's Business Center, microlender and CDFI with an annual operating budget of $1.3 million. Its purpose is to provide quality.

business education, unique business assistance programs and access to capital for women, minorities and economically disadvantaged individuals. One-third of its funding is from federal, state, and municipal governments, one-third is earned by contracting its services out to the community, and one-third is from foundations and corporations. Its staff of 18 is comprised of individuals with banking, accounting, legal and business ownership background.

WWBIC functions in several capacities. The following discussion highlights several programs illustrative of similar initiatives around the nation that cover assistance, microlending, peer group lending and business incubators.

BUSINESS EDUCATION AND ASSISTANCE

WWBIC conducts more than 200 business workshops and learning experiences. Hands-on assistance is provided through one-on-one counseling and mentoring. The objective of WWBIC is to give individuals assistance and instruction that is usable. The most popular of its many courses and seminars is Start Smart, a 12-week class in business development in which the participants learn to create a business plan. Participants work on projects in groups, executing a variety of business-related assignments. Community entrepreneurs and business people from wide-ranging fields and socioeconomic backgrounds join the classes to advise and guide participants.

BUSINESS INCUBATION

WWBIC manages a business incubator in the heart of Milwaukee that focuses on women and minority businesses. Services include office space, shared services, training and one-on-one business assistance. The director and staff work intensely with the business owner on issues related to successful business operations including networking, marketing, promotions, legal structure and basic customer contracts. Typically, businesses are in the program up to two years, after which the relationship continues for six months to five years. The object is to speed the participant's learning curve for acquiring business acumen. Incubator clients are matched with paid consultants or professional volunteers to mentor them for a given period of time. At the conclusion of the program, clients are skilled in marketing, finances, legal issues and problem solving. Business owners pay for their consulting services, thereby learning to work with consultants.

WWBIC manages a business incubator in the heart of Milwaukee that focuses on women and minority businesses.

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The object is to speed the participant's learning curve for acquiring business acumen.

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Incubator clients are matched with paid consultants or professional volunteers to mentor them for a given period of time.

WWBIC stresses the importance of access to financing options and other components on the capital access spectrum such as peer loans, microloans, gap financing, creative loan packaging, guaranteed loan pre-qualification packages and venture capital opportunities.

■ ■ ■

The peer loan program creates an opportunity to participate in valuable cooperative learning.

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The WWBIC loan committee expects to make 25 to 40 microloans per year with an average loan size of $15,000.

SOCIAL BUSINESS VENTURE/BUSINESS LABORATORY

WWBIC owns and operates a social business venture, "Coffee Shop with A Conscience," located in a local library. This coffee house sells specialty coffee drinks, coffee beans and products from WWBIC loan clients. The coffee shop is used as a business laboratory, providing valuable early business experience. Participants track inventory, handle customer relations, learn merchandising and marketing techniques, and tabulate sales and expense figures.

LENDING SERVICES

WWBIC stresses the importance of access to financing options and other components on the capital access spectrum such as peer loans, microloans, gap financing, creative loan packaging, guaranteed loan pre-qualification packages and venture capital opportunities.

PEER LOAN PROGRAM

WWBIC conducts a peer loan program in which groups of four to 10 individuals determine how a small loan of $500 to $1,500 will be used among them. This program conducts outreach in low-income communities. WWBIC has found church and faith-based communities to be particularly responsive and suitable for a microloan program where group support and peer pressure is often substituted for collateral. The peer loan program creates an opportunity to participate in valuable cooperative learning. Individual group meetings plus mandatory monthly meetings at WWBIC among all peer loan groups provide a forum for feedback and information about the businesses of all participating groups. Involvement in the group loan process also makes them more attractive to a loan committee.

MICROLOAN PROGRAM

WWBIC is the largest microlender in the state and county. It has borrowed $2 million, primarily from the U.S. Small Business Administration, to make microloans in amounts ranging from $100 to $25,000. The WWBIC loan committee expects to make 25 to 40 microloans per year with an average loan size of $15,000. The use to which clients can apply these funds is flexible. However, they may not be used to retire existing debt. WWBIC strongly encourages its borrowers to take advantage of the classes and one-on-one assistance it offers to complement the loans it provides.

Each WWBIC loan application undergoes complete loan analysis. Past credit problems and bankruptcies must be explained in writing and a business plan and financial projections must accompany the application. The loan committee is made up of volunteer bankers, accountants, attorneys and members of the community.

WWBIC has developed its own "credit scoring" system and approves most loans if the business appears to be viable and the individual seeking the loan appears to have the ability to carry out and expand the business idea.

SBA PRE-QUALIFICATION GUARANTEE PACKAGING

Applications are reviewed and packaged with the expectation that the SBA will approve a 50 to 80 percent loan guarantee. Each loan has a WWBIC staff member assigned to oversee the loan who reviews the progress of the client and brings in additional resources, if necessary. WWBIC helps individuals shop their loans and is able to steer them to lenders who are willing to take more risks. WWBIC is also familiar with venture capital sources within the state willing to look at equity deals, although WWBIC itself does not conduct any venture capital investing.

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The Small Business Administration has initiated a number of programs, that facilitate the financing of small businesses generally, some of which are specifically targeted to women-owned businesses.

The federal government guarantees 50 to 80 percent of loans made to qualified small businesses.

Banks are discounting the opportunity to enter the women's market segment regardless of federal insurance.

Federal Lending and Investment Programs

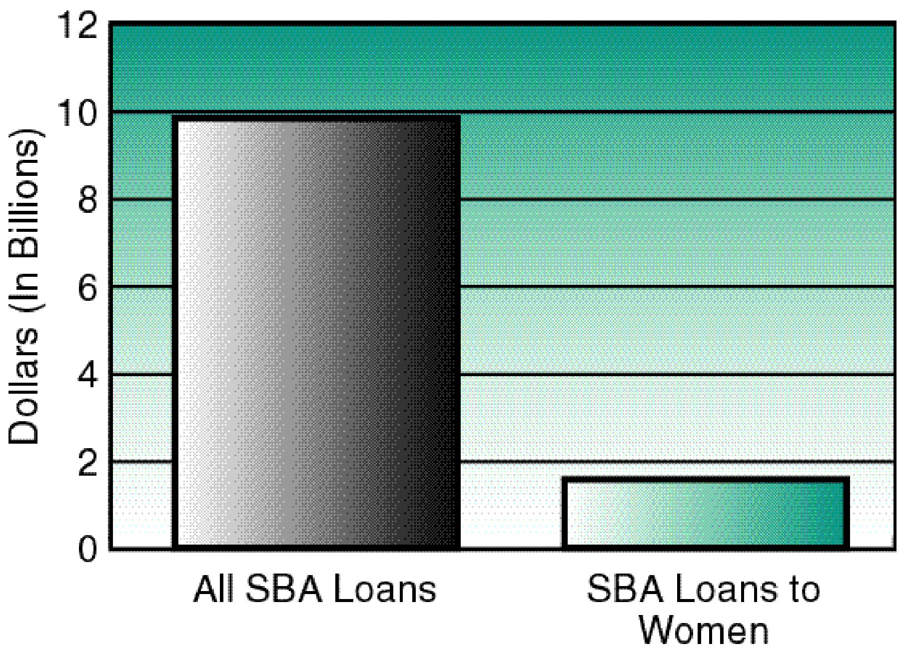
SMALL BUSINESS ASSOCIATION LOAN GUARANTEE PROGRAMS

The Small Business Administration (SBA) has initiated a number of programs that facilitate the financing of small businesses generally, some of which are specifically targeted to women-owned businesses. Perhaps the most important thing that the SBA has done to stimulate the growth of small businesses is its commitment to guarantee the loans of small-business owners. Under these programs, the federal government guarantees 50 to 80 percent of loans made to qualified small businesses. Still, banks are not encouraged by federal guarantees to engage in high-risk investments and lend primarily to existing businesses rather than startups, i.e. new businesses not yet generating a steady revenue stream. However, with only a small portion of the loan at risk, lenders are less likely to decline funding and have incentives to increase the number of loans they make to small firms. Efforts to obtain credit under guaranty programs are enhanced by additional SBA initiatives that pre-qualify borrowers for SBA loans, raise the guaranty level of certain loans and provide technical assistance to assure that otherwise risky borrowers have the support they need to succeed.

The largest providers of SBA-backed loans are non-banks, though traditional lenders are beginning to increase their SBA lending. Since the SBA initiated programs that "reduce paperwork, speed loan approval and reduce costs associated with their programs, such loans have become a more cost-effective way for banks to penetrate segments of the small-business market."[75]

A particularly lucrative market segment is women, which, in the past, has largely been ignored by the banking industry. For a number of reasons, banks have been reluctant to lend to women in the past. The advent of SBA-guaranteed loans creates the opportunity for banks to test out this rapidly growing market segment at a greatly minimized risk. Still, women receive roughly just one-sixth of all SBA-guaranty loans, disappointing considering women's nearly 40 percent participation in the marketplace (Figure 2). This tells us that banks are discounting the opportunity to enter the women's market segment regardless of federal insurance. This trend should shift as banks begin to appreciate the high revenue potential and sound credit risk in lending to women.

Figure 2
Total Amount of all SBA Loans vs. Loans to Women (Gross)



Source: U.S. Small Business Administration and National Women's Business Council

CASE STUDY

COMMUNITY EXPRESS

The Community Express Loan Program – operated by the Small Business Administration (SBA), the National Community Reinvestment Coalition (NCRC), and several national banks – has incorporated several elements identified as increasing the likelihood of success: mitigating risk, streamlining and expediting the loan process and approval criteria, and creating lender-government and lender-community partnerships.

Community Express is in its second year of a five-year pilot program. The Community Express program is part of the SBA's New Markets Initiative to spur economic development and job creation in underserved communities through assistance to small businesses that have difficulty obtaining traditional loans. The Community Express program targets two markets: low- and moderate-income geographies and women- and minority-owned businesses, regardless of geography or income.

The Community Express Loan Program has incorporated several elements identified as increasing the likelihood of success: mitigating risk, streamlining and expediting the loan process and approval criteria, and creating lender-government and lender-community partnerships.

The Community Express program is part of the SBA's New Markets Initiative to spur economic development and job creation in underserved communities through assistance to small businesses that have difficulty obtaining traditional loans.

The key to the Community Express program is that it provides small-business owners with technical and management assistance in budgeting, marketing and management, before and after the loan is made.

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The rate of lending through Community Express to businesses owned at least 50 percent by women is consistently running at about 54 percent of total loans.

■ ■ ■

As of August 2000, the SBA approved 119 loans totaling $11.8 million and 54 percent of these loans went to businesses owned 50 percent or more by women.

Lenders may use the same streamlined loan processing procedures for Community Express loans as used for SBA Express loans. SBA Express lenders use their own paperwork and procedures to issue SBA loans without the SBA's direct involvement. In return for this flexibility, the loan guaranty is limited to 50 percent. Guaranty percentages are increased to 80 percent for loans up to $100,000 and to 75 percent for loans up to $250,000 for Community Express loans. The borrower is able to combine loan terms and lines of credit to craft the kind of financing it needs, up to these limits.

The key to the Community Express program is that it provides small-business owners with technical and management assistance in budgeting, marketing and management, before and after the loan is made. Borrowers receive hands-on training and support as a loan condition. Lenders partner with technical assistance providers in each market to provide assistance to each Community Express borrower tailored to that borrower's needs. Lenders compensate technical assistance providers for their services.

Lenders work with the NCRC, which is charged with coordinating the technical assistance program nationally, to select a qualified technical assistance provider. "Technical assistance may be provided by the participating lender, the nonprofit community organization partner, or a combination of both. Lenders and community-based technical assistance providers enter agreements outlining their roles, financial support, and mutual referrals. Technical assistance under Community Express is viewed as added protection for both SBA and the lender, and as an indicator of the borrower's commitment. Technical assistance, in fact, may be used as collateral enhancement. SBA is willing to raise its guaranty level for this pilot from the SBA Express 50 percent level to the 7(a) guaranty level, in part because it wants to test the role of technical assistance in preventing default and facilitating borrower's success."[76]

The rate of lending through Community Express to businesses owned at least 50 percent by women is consistently running at about 54 percent of total loans. As of August 2000, the SBA approved 119 loans totaling $11.8 million, and 54 percent of these loans went to businesses owned 50 percent or more by women.

Ten lenders participating in the initial phase originated those loans. On July 28, 2000, the SBA and NCRC announced a major expansion of Community Express to 500 new lenders that meet SBA criteria. Lending will surge dramatically as new banks come aboard in the next six to 12 months while the 10 original lenders are aggressively expanding to new markets. Businesses supported by Community Express contribute to their communities through job creation and neighborhood revitalization.

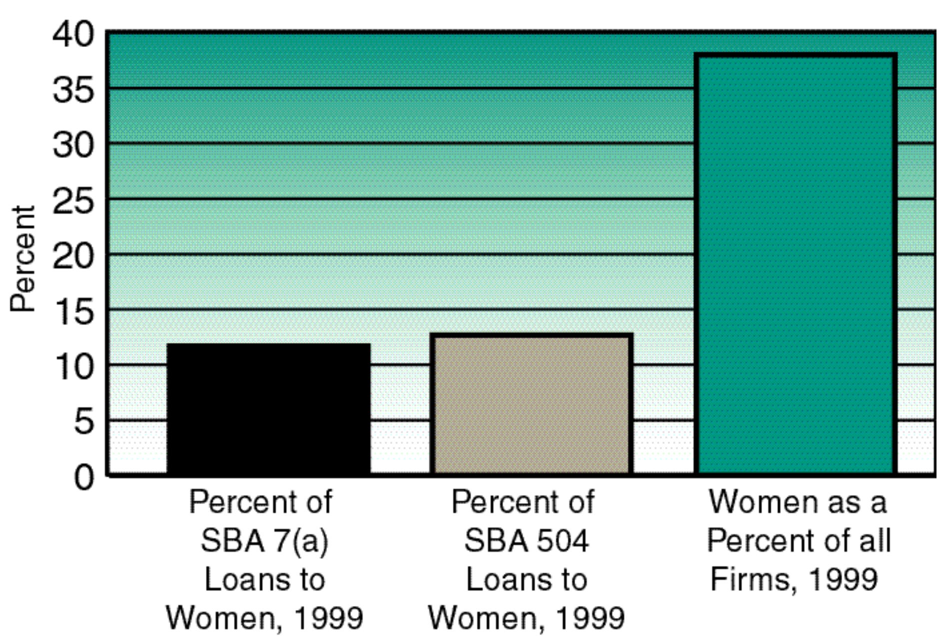
504 CERTIFIED DEVELOPMENT COMPANIES (CDCS)

The SBA guarantees certain small-business loans, called Section 504 loans, for the purpose of financing fixed assets. These loans can only be issued through special non-profit lenders, certified by the SBA, called Certified Development Corporations (CDC's). 504 loan proceeds must be used for fixed-asset projects, such as the purchase of land, machinery and equipment, construction, improvements, conversions and landscaping. The proceeds cannot be used for working capital or inventory, consolidating or repaying debt, or refinancing.

To be eligible, the business must be for-profit and have a tangible net worth of less than $6 million and a net income of less than $2 million. Loans cannot be used for speculation or investment in rental real estate.

504 projects are typically structured to include a loan secured with a senior lien from a private-sector lender covering up to 50 percent of the project cost, a loan secured with a junior loan from the CDC in the

Figure 3
Women's Share of SBA Loans vs. Share of Business Ownership



Source: U.S. Small Business Administration and National Women's Business Council

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To be eligible, the business must be for-profit and have a tangible net worth of less than $6 million and a net income of less than $2 million. Loans cannot be used for speculation or investment in rental real estate.

In the three-quarter period October 1, 1999 through June 30, 2000, the SBA approved nearly $1.3 billion in 504 funding.

■ ■ ■

Of the $1.3 billion funded in that period, women business owners received about $176 million, or 13.5 percent of the loan funds, the same percentage issued to women in all 1999.

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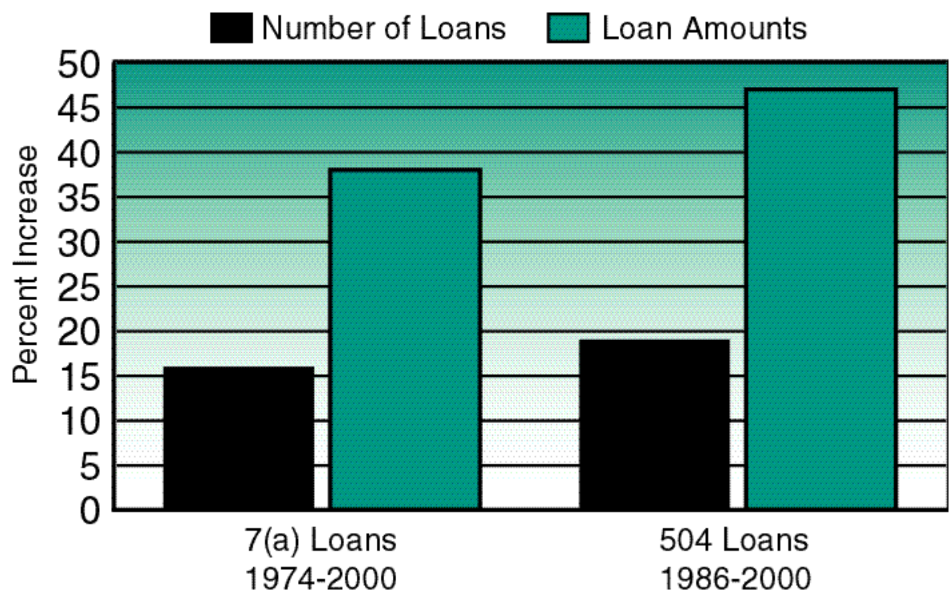
The fiscal year 2000 loans to women are nearly 50 times greater than the 1986 loan amounts, with an annual increase average of 47 percent.

Figure 4
Average Annual Increase in SBA Loans to Women



Source: U.S. Small Business Administration and National Women's Business Council

form of a 100 percent SBA-guaranteed debenture, covering up to 40 percent of the cost, and a contribution of at least 10 percent equity from the small business receiving assistance. The maximum SBA debenture generally is $750,000 (up to $1 million in some cases). Because the program is designed to enable small businesses to create and retain jobs, the CDC's portfolio must create or retain one job for every $35,000 provided by the SBA.[77]

In the three-quarter period October 1, 1999 through June 30, 2000, the SBA approved nearly $1.3 billion in 504 funding.[78] Of the $1.3 billion funded in that period, women business owners received about $176 million, or 13.5 percent of the loan funds, the same percentage issued to women in all 1999[79] (Figure 3). The amount of 504-loan money going to women continues to increase. The fiscal year 2000 loans to women are nearly 50 times greater than the 1986 loan amounts, with an annual increase average of 47 percent[80] (Figure 4). The 2001 budget request would increase the total amount of 504 loans to $3.75 billion.[81]

7(A) LOAN GUARANTEE PROGRAM

The 7(a) Loan Guaranty Program is one of SBA's largest lending programs. The 7(a) loan guarantee program offers lenders a 75 to 80 percent government guarantee for loans they make to small businesses.[82]

These loans are extraordinarily flexible and can be used for almost any business purpose, including working capital, acquisition of furniture, fixtures, machinery and equipment, purchase of inventory, construction, renovation or improvements, and purchase of real estate. Repayment ability from the cash flow of the business is a primary consideration for loan approval. However, good character, management capability, collateral and owner's equity contribution are also important considerations. All owners of 20 percent or more are required to provide a personal guarantee. Generally, $750,000 is the maximum amount the SBA will guarantee. Lenders are able to make loans under $100,000 with an 80 percent SBA repayment guarantee and loans up to $1 million with a 75 percent SBA guarantee.[83]

In 2000, over $9 billion in loans were issued through the 7(a) loan program.[84] Women received 16 percent of these loans.[85] While this percentage may seem low compared to the percent of all businesses owned by women in 1999, it represents a 4 percent improvement (Figure 3). This increase is not an anomaly. The amount of 7(a) loans awarded to women increased 19 percent each year on average since 1973 (Figure 4). The 2000 loan amounts to women – about $1.6 billion – are more than 55 times greater than the loan amounts issued in 1973.[86] The 2001 federal budget would increase the amount of federal money in this program to $11.5 billion.[87]

In 2000, over $9 billion in loans were issued through the 7(a) loan program.

The 2000 loan amounts to women – about $1.6 billion – are more than 55 times greater than the loan amounts issued in 1973.

PRE-QUALIFICATION PILOT LOAN (PREQUAL) PROGRAM

Notwithstanding the lending incentive that loan guarantees offer, obtaining a loan remains difficult. Borrowers are discouraged or turned away by a lender's presumption that a particular loan would not receive SBA approval. Accordingly, the SBA has initiated additional programs to enhance speed and standardization of the process, and to reduce the risk that qualified applicants will be turned away due to a misapplication of lender discretion.

Notwithstanding the lending incentive that loan guarantees offer, obtaining a loan remains difficult. Borrowers are discouraged or turned away by a lender's presumption that a particular loan would not receive SBA approval.

The SBA's Pre-Qualification Pilot Loan (PreQual) Program is a 7(a) program that enlists primarily nonprofit intermediaries to assist prospective borrowers with viable loan application packages.[88] This program, originally introduced as the Women's Pre-Qualification Pilot Loan Program in June 1994, was later expanded to more aggressively market the SBA's loan programs to minorities and other underserved markets. Under this program, the intermediary and the applicant work together to evaluate the feasibility of a proposed project, develop a business plan and prepare a loan application. With an SBA commitment letter to the lender prequalifying the borrower for up to $250,000, banks are more likely to approve the loan request.[89,90]

SBA LOW DOCUMENTATION (LowDoc)

SBA Express makes it even easier for banks to make small-business loans by allowing lenders to use their own forms in the application process, while still guaranteeing a three-day response time from the SBA.

The SBA Low Documentation (LowDoc) program streamlines the loan process by providing an SBA guaranteed response to a loan application within three days. The LowDoc program provides a 75 percent SBA repayment guarantee on loans up to $150,000.[91]

SBA Express makes it even easier for banks to make small-business loans by allowing lenders to use their own forms in the application process, while still guaranteeing a three-day response time from the SBA. Under SBA Express, banks receive an SBA guarantee of 50 percent on loans up to $150,000.[92]

COMMUNITY EXPRESS

As noted in its case study, Community Express is an innovative pilot program offered by the SBA in conjunction with the National Community Reinvestment Coalition (NCRC). It offers a three-day turnaround, but with an increased maximum loan amount of $250,000.[93]

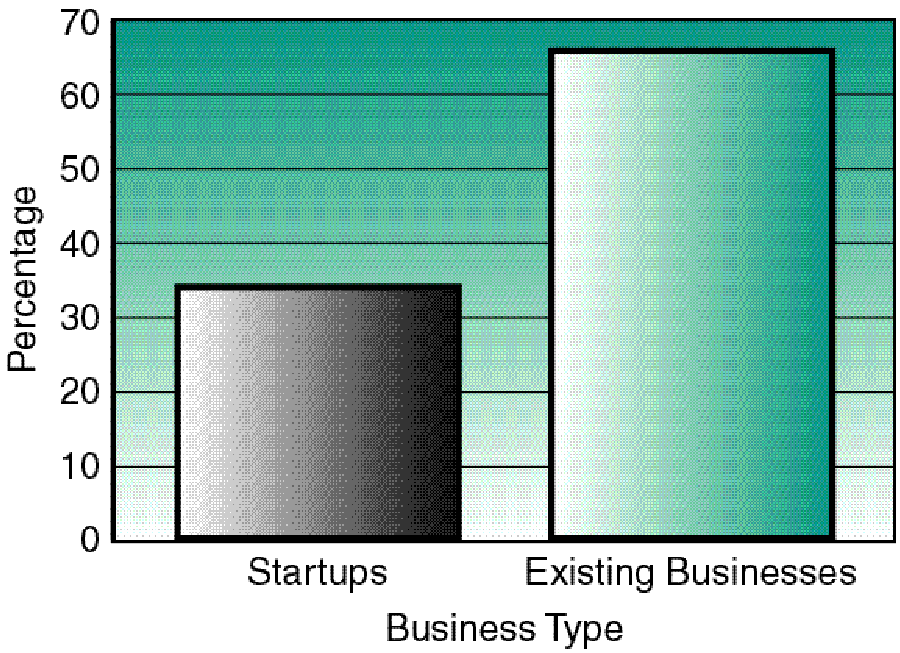
Technical assistance and follow-up provide added protection against default and may be viewed as a form of collateral enhancement.

Technical assistance is the key aspect of the Community Express Program. In each target market, Community Express lenders work with the NCRC to select a qualified technical assistance provider from NCRC membership organizations. These organizations are community-based nonprofits with knowledge of local needs and access to local resources. Each borrower is paired with a local technical assistance provider, who designs an action plan that includes appropriate pre- and post-loan support, monitoring and technical assistance. The technical assistance and follow-up provide added protection against default and may be viewed as a form of collateral enhancement.

SBA MICROLOAN PROGRAM

Many small businesses too small to participate in 504 or 7(a) programs require only nominal amounts of capital. For these micro-enterprises, the SBA instituted a microloan program that assists both startups and existing businesses (Figure 5). Under this program, the

Figure 5
Percent of MicroLoans Received by Business Type



Source: U.S. Small Business Administration and National Women's Business Council

SBA provides funds to nonprofit organizations that, in turn, make loans ranging from $100 to $25,000.[94] The average loan-size is $9,300.

The women's micro-enterprise market is growing. In 2000, over 600 SBA microloans worth about $6.6 million were made to women business owners.[95] This represents an increase in SBA microloan dollars of over 300 percent since 1993. For the three-quarter period October 1, 1999 through June 30, 2000, the SBA microloan program made 475 loans to businesses wholly owned by women. This represents almost 38 percent of the total microloans for this period at an amount of $5,063,100. For businesses that were at least 51 percent women-owned, but fell short of 100 percent, 126 microloans were made, almost 10 percent of the total, in an amount of $1,538,886. The 2001 budget proposes $60 million in microloans and another $45 million in technical assistance for microloan borrowers.[96]

The SBA has created a number of loan programs to facilitate more equitable and efficient lending to small businesses. These SBA-backed loans have resulted in an increase of lending to small businesses, and in particular to women-owned businesses. However, the percentage of loans to women varies widely by loan category. Women received the smallest share of the most popular loans (7A, 504 and LowDoc),

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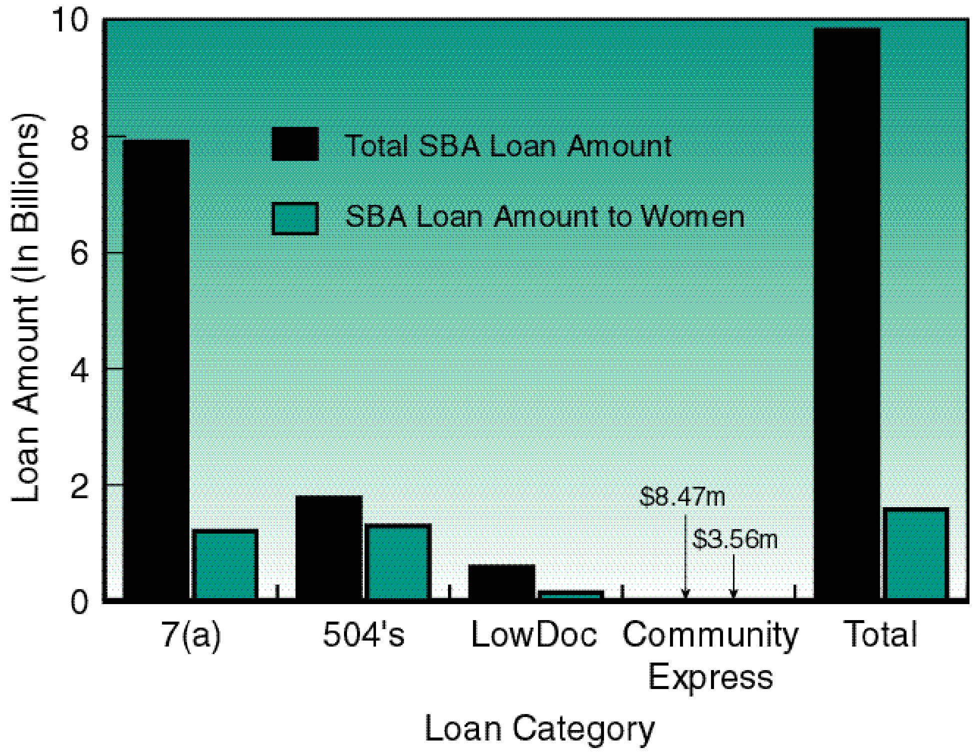
The percentage of loans to women varies widely by loan category. Women received the smallest share of the most popular loans while the majority of loans made to women came from those programs that made the lowest awards.

Although the minority- and women- focused loans are encouraging lending to women, banks appear to be wary of engaging in major transactions with women. The number and amounts of loans issued to women have been on the rise since the initiation of SBA loan programs, but are disappointingly far from representative of women involved in enterprise.

Figure 6
Total SBA Loans vs. SBA Loans to Women



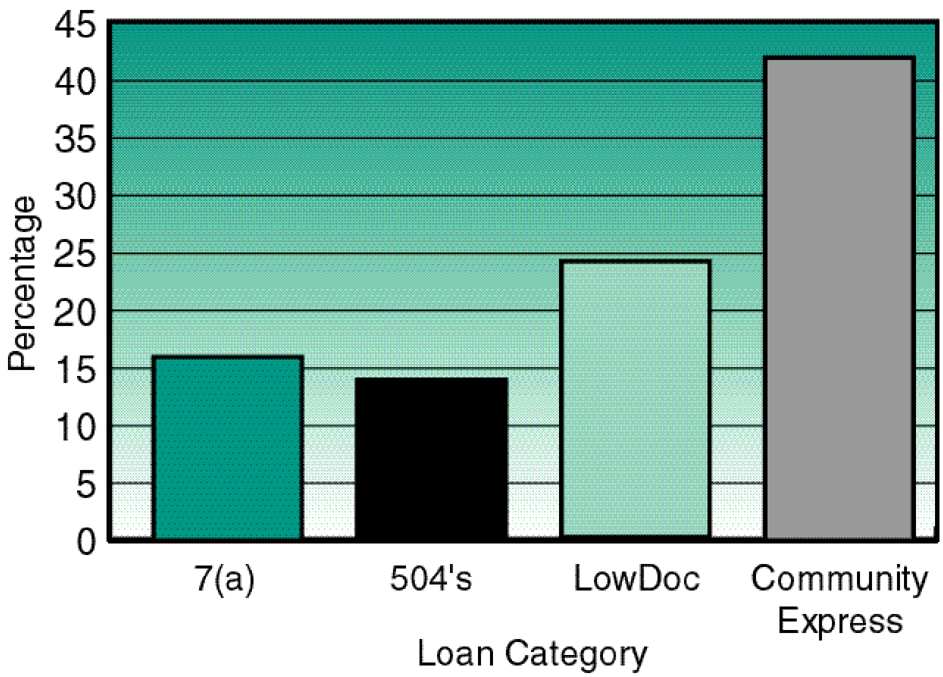
Source: U.S. Small Business Administration and National Women's Business Council

while the majority of loans made to women came from those programs that made the lowest awards. In fiscal year 2000, women received only 16 percent of all 7(a) loans, which represent 81 percent of all fiscal year 2000 SBA loans. At the same time, women received 42 percent of Community Express Loans, which make up only 0.08 percent of all fiscal year 2000 SBA loans (Figure 6 and Figure 7). Although the minority- and women- focused loans are encouraging lending to women, banks appear to be wary of engaging in major transactions with women. The number and amounts of loans issued to women have been on the rise since the initiation of SBA loan programs, but are disappointingly far from representative of women involved in enterprise.

SBA WOMEN'S BUSINESS CENTERS

The Small Business Administration partially funds a network of Women's Business Centers (WBC) in the 50 states and territories. Of the 92 original Women's Business Centers, 23 have graduated from the program and no longer need SBA funding. The Wisconsin

Figure 7
Percentage of SBA Loans to Women by Category



Source: U.S. Small Business Administration and National Women's Business Council

Women's Business Initiative Corporation, noted as a model program in this report, began as a Women's Business Center. These WBCs provide a wide range of services to women entrepreneurs at all levels of business development. Their primary purpose is educational and they offer time-intensive focus on the individual as an investment not only in business capital, but in human capital as well. WBCs provide individual business counseling and training in areas related to in finance, management and marketing. Many also serve as intermediaries for the SBA's MicroLoan and Loan Prequalification programs.[97] About $12 million in Women's Business Center support has been proposed in the administration's 2001 budget.[98]

CDFI: U.S. TREASURY COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS

Community Development Financial Institutions (CDFIs) are private, grassroots organizations whose social mission is to lend money and provide technical assistance, venture capital investments and basic

Community Development Financial Institutions are private, grassroots organizations whose social mission is to lend money and provide technical assistance, venture capital investments and basic financial services to individuals or groups that might otherwise be considered too risky by traditional lenders.

They reach areas that do not have traditional banks and initiate economic activity. A variety of organizations and funds qualify as CDFIs, some of which focus on women-owned businesses.

SBICs provide equity capital, long-term loans, debt-equity investments and management assistance to qualifying small businesses.

In 1999, SBIC financing totaled $4.22 billion. About 6 percent, or $55 million, went to women-owned businesses.

financial services to individuals or groups that might otherwise be considered too risky by traditional lenders.[99] They reach areas that do not have traditional banks and initiate economic activity. A variety of organizations and funds qualify as CDFIs, some of which focus on women-owned businesses.

The Treasury Department's CDFI Fund invests in local CDFIs to make them more viable assets to the communities they serve.[100] Since the fund was created in 1994, over $300 million has been awarded to increase the lending capacity and technical assistance ability of CDFIs across the country.[101] Some $88 million of the fund's awards to date have been part of the Bank Enterprise Award Program (BEA). These awards provide incentives for banks and other traditional lending institutions to invest in CDFIs as well as to increase their own direct lending to distressed areas of the communities they serve. The BEA has leveraged $1.8 billion in bank and thrift financing to support these goals and to build healthy private markets in these areas.[102]

SBA SMALL BUSINESS INVESTMENT COMPANIES (SBICS)

The Small Business Investment Company (SBIC) Program licenses privately owned and managed investment firms that use their own capital, plus funds borrowed at a favorable rate with an SBA guarantee, to lend and make venture capital investments in small businesses. SBICs provide equity capital, long-term loans, debt-equity investments and management assistance to qualifying small businesses. SBIC funding is available for all types of manufacturing and service industries. In 1999, SBIC financing totaled $4.22 billion. About 6 percent, or $55 million, went to women-owned businesses.

A Specialized SBIC (SSBIC) is an SBIC that is specially targeted to the needs of entrepreneurs who are socially or economically disadvantaged. In the SSBIC program, women's businesses received 14 percent of the total amount of financing.[103]

While the main focus of the SBIC program is equity investment, about $1.2 billion in SBIC investments involve debt or debt mixed with equity.

CASE STUDY

CAPITAL ACROSS AMERICA

AN SBA-LICENSED SBIC TARGETING WOMEN-OWNED BUSINESSES

Capital Across America (CXA) is a mezzanine fund that lends money primarily to women who own businesses with revenue in excess of $1 million. CXA is the first of three licensed SBICs that target women-owned businesses. CXA's objective is to assist women-owned or women-led companies. Before CXA and its counterparts came into existence in 1996, only 1 percent of SBIC funds went to women-owned companies.

CXA oversees $28 million dollars in partnership with institutional investors. CXAloans range from $300,000 to $1.5 million and focus on business growth. CXA's largest investors are Bank One, First Union and Bank of America. The average loan is $900,000 per company. For larger loans, CXA will package loans in concert with other Small Business Investment Companies.

CXA has trademarked an innovative debt instrument that works like equity. "Dequity" is a five-year loan based on projected cash flow that does not require collateral. The borrower pays interest-only for five years, and then the principal is repaid along with part of the upside of the company. The importance of this structure for women is that the loan looks and feels like equity, but does not result in ownership or control by CXA as would a typical equity fund. This generalizes from advances in financial innovation in the cooperative bond markets that provide capital access without excessive ownership dilution.

CXA assists companies that are no-tech or low-tech that traditional venture capitalists are not attracted to. This includes manufacturing, wholesale distribution, transportation, printing and insurance. CXA assesses the financial health of the company and the strength of its senior management, conducts on-site visits and performs reference and credit checks. Credit scoring is used in conjunction with its other tools of assessment. Whether CXA sits on the company's board is determined in part by the size of the loan.

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OTHER FEDERAL PROGRAMS

HOUSING AND URBAN DEVELOPMENT (HUD)

The U.S. Department of Housing and Urban Development (HUD) programs work in conjunction with community economic development activities.

- HUD's Community Development Block Grant program provides annual grants to local governments for physical and economic development purposes.[104]

- HUD's Economic Development Initiative (EDI) works alongside block grants to assist small businesses directly. EDI funds may be used to guarantee loans to small businesses through a loan-loss reserve or to lower interest rates charged to small businesses in the economic development area. Some $35 million were allocated to the EDI in 1999.[105]

Location is often a strong determinant of a small business' access to capital.

UNITED STATES DEPARTMENT OF AGRICULTURE (USDA)

Location is often a strong determinant of a small business' access to capital. Rural firms, for example, often have their own set of needs that remain unmet by metropolitan lenders. In response, the U.S. Department of Agriculture (USDA) designed a variety of programs to assist rural and farm-based businesses. The primary purpose of these programs is to create and maintain employment and improve the economic climate in rural communities.[106]

- The Business and Industry Direct Loan Program provides up to $10 million to public or private entities experiencing difficulty obtaining financing elsewhere.

- The Business and Industry Guaranteed Loan Program guarantees up to 90 percent of a commercial loan to businesses in rural areas. Any one borrower may borrow a maximum of $25 million to be used for working, building or physical capital.

Department of Agriculture designed a variety of programs to create and maintain employment and improve the economic climate in rural communities.

- The Intermediary Relending Program provides funds to intermediary community development organizations in rural areas. These intermediaries establish a revolving loan fund that may loan up to $150,000 to small businesses.[107]

- Rural Business Enterprise Grants provide funds to public bodies and nonprofit corporations to finance and facilitate development of small and emerging private business enterprises in rural areas.

- Technical assistance and business training are provided for these emerging businesses through Rural Business Opportunity Grants. These funds are also made available to public bodies and non-profit corporations.

- USDA also provides Rural Economic Development Loans and Grants for utility companies operating in rural areas.

In 1999, 941 loans and 453 grants totaling $1,365,246,287 were disbursed through USDA business programs. This resulted in 79,839 jobs created or saved and 3,742 businesses assisted in rural areas across the country. USDA has allocated $995 million in funding for its rural business programs in 2000.[108]

STATE CAPITAL ACCESS PROGRAMS

Capital Access Programs (CAPs) are loan portfolio insurance programs that establish a reserve account in each bank involved in the program. A portion of each loan made in this program is set aside in a reserve account. The participating state government matches this reserve account deposit. This account can be accessed to offset any non-repayment of a CAP loan and cover the entire loss through the reserve account. The benefit of this program is that CAP enables lenders to make riskier small-business loans than would otherwise be justified under traditional lending models.

Federal legislation [PL103-325] allows allocation of federal funds to State CAP reserves though no funds have been allocated to date. To enable this allocation, the existing legislation needs to be changed to allow the Treasury Department CDFI to enlarge the existing appropriation and make a proportionate allocation to State CAP programs. The importance of this legislative change must be impressed upon ranking members of both the Senate and the House Banking and Appropriations Committees so that an appropriate contribution can be made to State CAP reserves.

Since the first CAP program began in Michigan in 1986, about $1.2 billion has been lent to small businesses, with an average loan size of $59,000.[109] Today, 19 states and two cities operate CAPs. In 1998, more than $246 million in new CAP loans were made to small businesses across the country. In Texas, 18 percent of businesses receiving TexCAP loans were women-owned firms.[110] These firms received 10 percent of the dollar value of these loans. In Illinois, women's businesses secured 22 percent of the CAP loans, and 18 percent of the dollar value of those loans.[111]

Establishment of a national loan portfolio insurance program modeled after state capital access programs such as these would have dramatic results.

THE COMMUNITY REINVESTMENT ACT

The Community Reinvestment Act (CRA) was enacted in 1977 to ensure that banks and thrifts met the credit needs of underserved groups in their communities. Specifically, the act is intended to

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■ ■ ■

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■ ■ ■

Establishment of a national loan portfolio insurance program modeled after state capital access programs such as these would have dramatic results.

Banker's Community Development Corporation Loan Program is a consortium of San Diego banks that pools funds.

This for-profit loan program, administered by the nonprofit CDC Small Business Finance Corporation, targets businesses owned by women, minorities, and other underserved borrowers that do not meet SBA or conventional lending criteria.

About 50 percent of its loans are currently made to women business owners.

increase the amount of money invested through lending in older, central city, and low-income environments. As a result, about two-thirds of all small-business loans and one-fifth of all small farm loans are made by CRA reporting institutions. Over $1 trillion in new investments and loans have been made to these underserved communities since 1977.[112]

The CRA does not specify detailed requirements or lending quotas. Compliance is determined through examination by federal regulators. Failure to comply with the CRA guidelines can cost banks their freedom to merge with other banks or to open new branches in the future. One creative way to meet this requirement is to support intermediaries such as consortium lending corporations that specialize in financing small and minority businesses. "By participating in consortia organizations, a bank can reduce, but leverage the amount of its capital devoted to small-business finance, share risks, and share the costs of lending to riskier small firms."[113]

CASE STUDY

BANKER'S COMMUNITY DEVELOPMENT CORPORATION LOAN PROGRAMS

A MICROLOAN PROGRAM FUNDED BY A CONSORTIUM OF BANKS

Banker's Community Development Corporation Loan Program (Banker's CDC) is a consortium of San Diego banks that pools funds to provide financing to small businesses while mitigating risk. Its mission is to supply capital to businesses that do not qualify for traditional bank financing for business growth so that they may eventually qualify for conventional bank financing. Because it targets underserved borrowers, the banks in the Bankers CDC consortium meet their Community Reinvestment Act (CRA) requirements. This for-profit loan program, administered by the nonprofit CDC Small Business Finance Corporation, targets businesses owned by women, minorities, and other underserved borrowers that do not meet SBAor conventional lending criteria. About 50 percent of its loans are currently made to women business owners.

Each bank owns a percentage of every loan and is repaid when loan payments are made. When the loan is paid, the investors are paid. If a loan goes unpaid, the investing banks each lose money on the loan.

Microloans averaging $30,000 are also part of the program. Because of the high cost of processing microloans, Bankers CDC contracted with

Table 8

Summary of Major Financial Market Interventions

Program	Size	Women's Share of Program	Technical Assistance	Loans/ Guarantees	Equity	Grants	Target Groups
USDA Loans and Grants	$1.4 billion	N/A	Sometimes	Yes	No	Yes	Rural small businesses
SCORE	11,000 counselors 740 available online	N/A	Yes	No	No	Yes	All U.S. citizen small-business owners
SBDCs	57 locations; 1,000 satellite branches	1 million trained since 1995	Yes	No	No	No	All U.S. citizen small-business owners
SBICs/ SSBICs	57 locations; 1,000 satellite branches	$55 million	Yes	Yes	Yes	No	Small businesses with net worth under $18 million
SBA 7(a)	$10 million	$1.2 billion	Sometimes	Yes	No	No	Small businesses
SBA 504	$2 billion	$250 million	Yes	Yes	No	No	Small businesses investing in fixed assets
SBA Microloans	$60 million	$7.7 million	Yes	Yes	No	No	Small businesses that need up to $25,000
Revolving Loan Funds	$8 billion in financial assets	N/A	Sometimes	Yes	No	No	Varies
CDFIs	$95 million from CDFI Fund; over $3.5 billion from CDFIs	N/A	Yes	Yes	Yes	No	Low-income owners
CDCs	Over 3,600 CDCs nationwide	N/A	Yes	Yes	Yes	No	Low-income owners

Source: The Ford Foundation and SRI International, "Changing Financial Markets: Implications for small-business Financing;" The Milken Institute.

the CDC Small Business Finance Corporation to run the program for them. Banker's CDC is now lending from its sixth loan pool, which is $394,000 in size. The first five pools made loans to more than 80 businesses, totaling $2.2 million. Each loan application is submitted to a loan committee. Growth companies are targeted over startups, and the applicant must have been in business for at least one year. Startups are funded only if the entrepreneurs can show experience in the industry or business management experience. Banker's CDC Microloan Program does not use credit scoring and evaluates each loan on its own merits. It looks for evidence of good character through a sincere effort in the borrower's credit history to repay bills. This is beneficial to borrowers who have not developed credit histories or whose credit histories are flawed. Borrowers receive management consulting services as part of the loan terms. Banker's CDC requires its borrowers to take advantage of the technical assistance offered. It retains a pool of CPA's and marketing experts who agree to consult with borrowers on an ongoing basis for six months. If marketing services are required, then a marketing expert is also assigned to assist with marketing. A fee of $1,000 is added to each loan to cover the cost of the consultants. If the company remains current for one year, $600 is rebated.

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REPORT RECOMMENDATIONS

AMEND FEDERAL RESERVE REGULATION B – EQUAL CREDIT OPPORTUNITY ACT

Federal Reserve Regulation B is intended to encourage fairness by prohibiting lenders from collecting data regarding an applicant's gender or race, among other things. Despite its intent, its effect is to mask actual lending practices with regard to women and women-owned businesses. This regulation ought to be amended to allow the collection of demographic information from borrowers. This revision would allow banks to operate as effectively in the women's business lending market as they have in the home mortgage market, where collection of demographic data has opened lending to underserved communities. Without specific knowledge of the demographic composition of small-business borrowers, including those that apply but do not receive approval, the ability to systematically measure and monitor programs that advance women's business ownership participation is compromised.

CREATE NEW CREDIT SCORING MODELS

Innovations in credit scoring models, specifically those that incorporate data relevant to women and women-owned businesses, would generate new growth opportunities. Lenders will benefit from models that more accurately address lending risks associated with women-owned businesses by producing a better understanding of their market. The efficacy of this recommendation depends greatly on the implementation of the first recommendation, which would make gathering the necessary data possible.

IMPLEMENT A NATIONAL CAPITAL ACCESS PROGRAM

A National Capital Access Program (CAP) would create a reserve insurance pool that will allow banks to make loans that would not otherwise be made, thereby creating new financing opportunities for thousands of businesses. As women-owned businesses continue to strive to gain the confidence of lenders, CAPs allow banks to make loans that would not be made without the reserve insurance pool that CAPs provide. While women-owned businesses receive only 12 percent of all credit extended, under the CAP program in California, for example, 30 percent of loans go to minority- and women-owned businesses.[114]

EXPLOIT SECURITIZATION

Financial institutions could pool standardized small-business loans and sell them as securities to institutional investors. This would

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The combination of high bond ratings at issuance, the multiplier effect of returning reserves to the available pool of funds, and the encouragement of specialty lenders for underserved small-business borrowers makes securitization a vigorous policy tool for encouraging economic growth.

Every five years the U. S. Census Bureau conducts the Economic Census. This is the only major source of facts about the structure and functioning of the nation's economy.

enable banks to increase liquidity, lower transaction costs and thus increase their ability to make additional loans. The use of securitization in combination with a National Capital Access Program (CAP) would encourage a new segment of lenders to specialize in this area. The need for specialty lenders, like those currently available for auto loans, exists because small-business loans require sophisticated personnel and resources to adequately analyze credit-worthiness. Securitization serves to increase the availability of funds for lending – first, by immediately returning the principal to the lender, and second, by releasing the reserve fund in advance of the lender's withdrawal from the program.

Under current regulations, CAP loan reserves must be held at the originating bank until program liquidation. Under securitization, the reserves are released when the bonds mature, usually in five to 10 years from issuance. These additional funds, up to 8 percent of the original loan amount, generate a loan dynamic multiplier estimated at 23 times. In addition to this large "reserve-release-multiplier" effect, the reserves themselves serve to vastly improve the bond rating agency's view of these securities. Under the rating systems in use at the major bond rating agencies, the combination of protections available would result in investment-grade ratings. The combination of high bond ratings at issuance, the multiplier effect of returning reserves to the available pool of funds, and the encouragement of specialty lenders for underserved small-business borrowers makes securitization a vigorous policy tool for encouraging economic growth.

Another risk mitigation innovation that could make investing in the emerging women's market attractive to individual and institutional investors is a financial equity guarantee insurance system. The reduced downside risk provided by such a system would enable and encourage equity investors to fund this emerging market.

INSTITUTIONALIZE THE ECONOMIC CENSUS, THE SURVEY OF WOMEN-OWNED BUSINESS ENTERPRISES, THE SURVEY OF MINORITY OWNED BUSINESS ENTERPRISES, THE CHARACTERISTICS OF BUSINESS OWNERS SURVEY AND THE SURVEY OF SMALL BUSINESS FINANCING.

Every five years the U. S. Census Bureau conducts the Economic Census. This is the only major source of facts about the structure and functioning of the nation's economy. Policymaking agendas of the federal government use the data especially in monitoring economic activity and providing assistance to businesses. As a part of the Economic Census, the Bureau issues its Survey of Minority-Owned

Business Enterprises (SMOBE), Survey of Women-Owned Business Enterprises (SWOBE) and the Characteristics of Business Owners Survey (CBO). These surveys provide the only national data on selected economic, demographic, and sociological characteristics among minority, women, non-minority male, and all business owners and their businesses. The release this October of the 1997 data will mark only the sixth Economic Census that includes women and minority enterprises.

Following the release of the Economic Census and the various surveys, the Federal Reserve conducts its own examination (co-funded by the Small Business Administration) of the data to more closely understand the finances of small businesses and the credit conditions they face. The Federal Reserve has conducted this Survey of Small Business Finances (SSBF) following the last three releases of the Economic Census.

While the U.S. Code (Sections 131, 191 and 224) directs the Census Bureau to take the Economic Census every five years, funding for these valuable programs, including SMOBE, SWOBE and CBO, are at the will of our legislators. The U.S. Congress should support these very important special census programs and include them when considering budget allocations. Without these surveys, federal agencies like the SBA will not have the resources to determine the needs of the business sectors, and consequently, programs and ultimately entrepreneurs will suffer, placing our entire macroeconomy at risk.

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Appendix A: Initiatives of the White House and Congress

The most recent White House Conference on Small Business in 1995 recognized this growing sector of women's business. Displaying its desire to contract with women's businesses, the conference's 1996 report urges Congress to enact legislation that would designate a national certification organization for federal procurement dollars. This would create a database of certified women's small businesses accessible by all federal agencies contracting with the private sector, thereby increasing the likelihood of women's firms obtaining federal procurement.[115]

The White House Conference recognized the importance that technical assistance plays in the development of small businesses. The result of this focus on training was the enactment of the Small Business Job Protection Act of 1996. This act allows employees to deduct up to $5,250 in employer-paid tuition from their taxable income each year, allowing for greater accessibility of workforce training and education.[116]

The United States Congress also recognized that women-owned small businesses are a powerful force in the economy.[118] In the Women's Business Centers Sustainability Act of 1999, Congress noted that between 1987 and 1996, "the rates of growth for women-owned small businesses in the United States for the fastest growing industries were: 171 percent in construction; 157 percent in wholesale trade; 140 percent in transportation and communications; 130 percent in agriculture; and 112 percent in manufacturing." These are precisely the industries that much of the government's contracting work comes from, yet they remain largely untapped.

In the Senate bill, Congress found that "the participation of women-owned small businesses in the United States in the procurement market of the Federal Government is limited." More specifically, "the rate of Federal procurement for women-owned small business is 2.2 percent." The Senate thus asked that the Comptroller General of the U.S. conduct an audit of the procurement system to arrive at "any recommended means to increase the number of Federal contracts awarded to women-owned small businesses."[117]

The implementation of these initiatives is key to sustaining both aggregate growth and the contribution of women-owned businesses to it.

Appendix B: Summary of Research

Current research about women-owned businesses points more and more to the fact that women are improving their access to and use of financial capital partially as the result of improved practices. Nevertheless, gender discrimination persists. A 1994 survey found that of those women-owned firms having difficulty securing credit, only 25 percent were ultimately successful. This compares to 33 percent of men-owned firms.[118]

Gary Becker postulated in his 1957 study that prejudicial discrimination in capital markets would most likely occur in concentrated markets. In this environment, bankers would act, according to Becker, as if they were willing to pay something in order to satisfy their discriminatory tastes. In capital markets, this would mean that bankers would be unwilling to lend to minority groups, thus incurring the cost of lost profit, unless these debtors were willing to pay a higher than average interest rate as compensation for having to deal with these groups of people. Competitive markets would tend not to tolerate discrimination to the same extent due to the greater demand for debtors in that environment.

In 1998, Ken and Linda Cavalluzzo tested Becker's theory in both concentrated and competitive markets using the Federal Reserve's 1988-1989 National Survey of Small Business Finances.[119] The 1987 data available in the report showed that while minorities did indeed still face discrimination in concentrated markets, women received treatment more similar to that of white men.

This study found similar demand for credit across all demographic and gender groups. The denial and interest rates were not similar however. Blacks and Hispanics experienced 35 percent more denials than white males. Hispanics and Asians paid one-and-a-half percentage points more in interest in their loans than did white males.

Women, however, fared much better. Cavalluzzo and Cavalluzzo discovered that women business owners in concentrated markets pay one-third less of a percentage point in interest than white males. Women in concentrated markets also seemed to receive better treatment than did women in competitive markets. In concentrated markets, for instance, women pay less for interest and are 9.5 percent more likely to obtain credit than their peers in competitive markets. The study proposes that banks in these concentrated areas place more emphasis on working with women business owners to obtain credit than do banks in competitive markets.

Cavalluzzo, Cavalluzzo, and Wolken followed up this study in 1999 by looking at the same issues with data from the 1993 National Survey of Small Business Finances.[120] Again they found that on average females had access to credit comparable to businesses owned by males. The rates women pay for loans again were lower in more concentrated markets than in competitive markets. This time, however, they found that denial rates for women increased along with bank concentration. Women business owners paid higher rates than men in concentrated markets and had 13 percent higher denial rates than men did.

Another study compares the Federal Reserve's most recent Survey of Small Business Finances of 1993 with the survey from the 1980s. This report by George and Deborah Haynes finds that between 1987 and 1993, women business owners have gained access to line-of-credit loans from banks similar to that of white males.[121] Women's proportion of debt that is comprised of lines of credit approached that of men during that time span.

Women business owners' reliance on family and friends as a source of lending remained constant, however, between 1987 and 1993. Perhaps partly because of this fact, fewer women used commercial banks for lending into the 1990s.

Fewer differences exist as of the early 1990s between men and women in terms of access to line-of-credit loans. This also signals greater access for women in general to mainstream lenders and debt instruments.

Haynes and Haynes offer six possible reasons as to why women have achieved this similar credit access: 1) The quality of women's firms is increasing; 2) women owners are better business educated and experienced than before; 3) women owners' risk preferences have changed and they have begun to seek more capital; 4) women are becoming more active in businesses that require more financing and collateral; 5) lenders have more experience lending to women and see them as less of a risk than before; 6) small businesses in general have switched to line-of-credit financing due to its relatively lower cost to the business owner.

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