Financing Patterns and Credit Market Experiences:
A Comparison by Race and Ethnicity for U.S. Employer Firms

by

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Table of Contents

Executive Summary

Access to capital for small businesses is one of the biggest policy issues in the United States today. Given the role of small businesses in job creation and economic growth, policymakers need to ensure that entrepreneurs and creditworthy firms are able to secure adequate financial resources for growth and success. Ensuring that these firms have adequate access to financial capital enables them to continue to drive innovation, growth, and job creation in the U.S. economy.

Prior research documents racial differences in both financing patterns and capital access, but timely data on this topic have been lacking. With the new annualized version of the Survey of Business Owners (SBO), which has been named the Annual Survey of Entrepreneurs (ASE), unprecedented detail on both of these topics is now available for employer businesses. The first ASE was released in September 2016 and covers calendar year 2014.

With questions on financing patterns, credit market experiences, and detailed data on the sources of financing and the amounts of financing by source, these data yield an incredibly rich picture of the current status of business financing and credit market experiences by U.S. employer businesses by race and ethnicity. This report provides an overview by race, ethnicity, and minority/ non-minority comparisons in terms of sources of capital, amounts of capital, credit market experiences, the impacts of access and cost of capital on firm profitability, and the role that financial capital played in firm closures in 2014.

The 2014 ASE data show Blacks and Hispanics continue to be underrepresented in business ownership. The data also show a greater reliance among minority-owned businesses on personal and family savings as a source of startup capital, despite wealth levels of Blacks and Hispanics being less than one tenth those of non-Hispanic Whites. Blacks and Hispanics were less likely to have business bank loans compared with Whites. Black-owned businesses were more likely to use credit card financing for debt, which is a much more expensive source, than they were to access lower cost business bank loans through financial institutions.

In terms of startup capital, Blacks and Hispanics were more likely to be undercapitalized when launching their businesses. They were about twice as likely to start their businesses with less than $10,000 in financial capital, compared with Whites and Asians. A greater percentage of Hispanics and Blacks attempted new financing relationships with a variety of sources, including banks, compared with Whites, which likely reflects the higher denial rates they experienced, when compared with Whites. Hispanics were more likely than Whites to not receive the full amounts requested from most of the various sources, while Blacks were often twice as likely (or more) to not receive the full amount requested, compared with Whites.

Many businesses needed credit at some point in 2014, but decided not to apply for a variety of reasons. Fewer than 10 percent of White-owned businesses stated this occurred, compared with 14.8 percent of Hispanics and 25.7 percent of Blacks. In terms of reasons given, 47.4 percent of Whites said that they thought the lender would not approve their loan application, compared with 58.5 percent of Blacks and 53.1 percent of Hispanics. Only 10 percent of Whites suggested that the lack of access to credit had a negative impact on profitability, compared with 17.4 percent of Hispanic-owned businesses and 28.4 percent of Black-owned businesses. Firms owned by Blacks and Hispanics were also more likely to state that the cost of capital had a negative impact on their profitability (22.6 percent and 15.8 percent respectively), compared with businesses owned by Whites (10.6 percent). Finally, for firms that closed down in 2014, Blacks were twice as likely as Whites to state that financial reasons drove their firm closure.

Hispanics were also more likely to cite financial reasons, compared with Whites, but the gap was much smaller.

To briefly summarize the report's findings:

- Blacks and Hispanics have lower levels of business financing.
- Blacks and Hispanics tend to be discouraged from entering capital markets.
- Blacks and Hispanics view their exclusion from capital markets as affecting their businesses. (Blacks and Hispanics are close to three times more likely to report a lack of access to capital affecting profitability than White owners, but like other owners generally felt taxes and slow sales as bigger factors in profitability.)
- On the contrary, Asian results are so strong that they can mask Black and Hispanic differences when combining all minority groups together.

Clearly access to capital is still a driving factor that is disproportionately affecting minority-owned businesses, especially those owned by Blacks and Hispanics. Given their lower wealth levels, these groups need to rely even more on other sources of financing external to their own personal assets. These newly available data illustrate that financing challenges for minority firms remain front and center for employer businesses across the United States. It appears that financing remains a critical challenge for minority entrepreneurs, even after nearly a decade following the financial crisis.

Policy implications. Access to capital for small businesses is one of the biggest policy issues in the United States today. Given the role of small businesses in job creation and economic growth, policymakers need to ensure that entrepreneurs and creditworthy firms are able to secure adequate financial resources for growth and success. Ensuring that these firms have adequate access to financial capital enables them to continue to drive innovation, growth, and job creation in the U.S. economy.

While minorities make up 40 percent of the U.S. population, they own only 20 percent of the employer businesses. As the minority population continues to rise, it is more important than ever that these prospective business owners have the resources they need to launch and grow successful firms. Significant changes are needed if minority businesses are going to access capital in sufficient amounts needed for them to start, grow and thrive.

Background

Business ownership is often viewed as a mechanism for promoting economic growth, wealth accumulation, and job creation (Boston, 2006; Bradford 2003). Access to financial capital is a critical element of new business formation and success. Prior research documents racial differences in both financing patterns and capital access, but timely data on this topic have been lacking. With the new annualized version of the Survey of Business Owners (SBO), which has been named the Annual Survey of Entrepreneurs (ASE), unprecedented detail on both of these topics is now available for employer businesses. The first ASE was released in September 2016 and covers calendar year 2014.

With questions on financing patterns, credit market experiences, and detailed data on the sources of financing and the amounts of financing by source, these data yield an incredibly rich picture of the current status of business financing and credit market experiences by U.S. employer businesses by race and ethnicity. This report provides an overview by race, ethnicity, and minority/ non-minority comparisons in terms of sources of capital, amounts of capital, credit market experiences, the impacts of access and cost of capital on firm profitability, and the role that financial capital played in firm closures in 2014.

The economics and finance literatures provide strong evidence that sufficient starting capital is a binding constraint for new firms. Entry into entrepreneurship increases with sudden increases in personal wealth, e.g. via bequest (Cagetti and De Nardi 2006) or external change in taxation rate (Nanda 2008), and with increased access to bank financing through deregulation and loosening of branching restrictions (Black and Strahan 2002). Likewise, the absence of funds inhibits entry. For example, Evans and Jovanovic (1989) find that borrowing capacity limits entrepreneurial entry; using the National Longitudinal Survey they estimate that new entrepreneurs are limited by the size of their initial assets in starting a new business. So inequalities in personal wealth could translate into disparities in business creation and ownership.

Indeed, we certainly see disparities in business ownership by race and ethnicity. The most recent Census data available are for employer businesses and come from the 2014 Annual Survey of Entrepreneurs. As shown in Table 1, these data show that Whites own 86 percent of employer businesses and Asians own nearly 10 percent of the employer businesses. Whites and Asians are overrepresented in business ownership, compared with their shares in the general population (61.6 and 5.6 percent respectively).[1] Hispanics and Blacks are greatly underrepresented in business ownership. Hispanics own 5.8 percent of employer businesses, but make up 17.6 percent of the population. Blacks make up 13.2 percent of the population, but own just 2.1 percent of employer businesses. In total, minority-owned firms make up 18.4 percent of the employer firm population, with firms owned equally minority/nonminority making up another 1.4 percent. So while they make up nearly 20 percent of the business owners, they are 40 percent of the population. As the minority population continues to rise, it is more important than ever that these prospective business owners have the resources they need to launch and grow successful firms.

Table 1: Statistics for U.S. Employer Firms by Race and Ethnicity for the U.S. (2014)

	Number of Firms	Percentage
White	4,441,550	86.0%
Black or African American	108,473	2.1%
American Indian and Alaska Native	26,757	0.5%
Asian	506,595	9.8%
Native Hawaiian and Other Pacific Islander	4,701	0.1%
Some other race	81,002	1.6%
Hispanic		

[1] All population data come from the American Community Survey from the U.S. Census Bureau. Non-Hispanic Whites make up 61.6 percent of the population.

All	298,563	5.8%
White	226,741	4.4%
Black or African American	5,339	0.1%
American Indian and Alaska Native	2,808	0.1%
Asian	3,739	0.1%
Native Hawaiian and Other Pacific Islander	615	0.0%
Some other race	66,619	1.3%
Minority	949,318	18.4%
Equally minority/nonminority	74,672	1.4%
Nonminority	4,141,816	80.2%
All firms classifiable by gender, ethnicity, and race	5,165,806	100.0%
Publicly held and other firms not classifiable by gender, ethnicity, and race	271,976	
All firms	5,437,782	
Source: 2014 Annual Survey of Entrepreneurs (U.S. Census Bureau 2016)		
Notes:		
Minority includes: Black or African American, Asian, Hispanic, American Indian and Alaska Native, Native Hawaiian and Other Pacific Islander, and "Some Other Race")		

Financial capital is one such resource. Previous research shows that much of the financial capital used to start businesses comes from the owners themselves. Yet estimates from the 2011 Survey of Income and Program Participation by the U.S. Census Bureau indicate that half of all Hispanic households have less than $7,683 in wealth and half of all African-American households have less than $6,314. This compares to a median net worth of White non-Hispanic households of $110,500. Only Asians have wealth levels close to those of non-Hispanic Whites at $89,339. Data from the 2013 Federal Reserve Board's Consumer Finance Survey found that the median wealth of a White family was $134,000, while for Asians it was $91,440. For Blacks and Hispanics, the figures were $13,900 and $11,184 respectively (Boshara, Emmons and Noeth, 2015).

Low levels of wealth and liquidity constraints can create substantial challenges for business owners because the owner's wealth can be invested directly in the business, used as collateral to obtain business loans, or used to acquire other businesses. In addition, banks and other investors frequently require a substantial level of an owner's investment of his/her own capital as an incentive. These large disparities in wealth levels severely impact the ability of Blacks and Hispanics to invest their own money into their businesses and attract other sources of capital for investment.

Previous research has looked at differences in access to capital from financial institutions. Disparate bank lending practices have been analyzed in studies using data from the Federal Reserve Bank's Survey of Small Business Finances. In summary, Minority Business Enterprises (MBEs) have been found to pay higher interest rates and experience greater incidences of loan denial than nonminority borrowers (Fairlie and Robb, 2008). Black-owned firms have the most difficulty accessing capital, as compared to other minority-owned and nonminority-owned firms, even after controlling for many firm and owner characteristics (Cavalluzzo and Wolken 2005; Blanchflower, Levine, and Zimmerman, 2003; Blanchard et al., 2008). Evidence of unfavorable bank-loan application outcomes similarly handicaps Hispanic- and Asian-owned firms, even when borrower risk factors were the same in comparison to nonminority-owned firms.

Two studies using different years of the SSBF (1998 and 2003) provide additional striking evidence. Using 1998 SSBF data, a large difference remained in denial rates across demographic groups, even after controlling for personal wealth. African Americans, Hispanics, and Asians were all more likely to be denied credit, compared to Whites, even after controlling for a number of owner and firm characteristics, including credit history, credit score, and wealth (Cavalluzzo and Wolken, 2005).[2] In the analysis of 2003 SSBF data, Asian Americans,

[2]They also found that Hispanics and African Americans were more likely to pay higher interest rates on loans that were obtained. *See also* Blanchflower, 2009.

Hispanics, and Blacks were more likely than Whites to be denied credit, even after controlling for creditworthiness and other factors, affirming the findings from the study using earlier data (Blanchflower, 2007).

While the SSBF is no longer conducted, a consortium of the Community Development Offices of the 12 Federal Reserve Banks now collaborate on an annual Small Business Credit Survey, which is designed to provide timely information on small business financing needs, decisions, and outcomes to policy makers, researchers, and service providers. An April 2017 report on employer firms, which used the 2016 data, indicates that this may be an important source of new data for studies of capital access and financing patterns of minority-owned businesses (Federal Reserve System, 2017). One interesting finding from a study from the Cleveland Federal Reserve Bank was around the use of online lenders by minority-owned businesses. Minorities were found to comprise a much larger share of the online applicant pool (36 percent) than of the traditional source applicants (14 percent). (Wiersch, Lipman, and Barkley, 2016). They have a report focused on minority business borrowing which will be published in the Fall of 2017.

Research using data from the Kauffman Firm Survey, which covered the years 2004-2011, found that that firms owned by Blacks and Hispanics relied disproportionately upon owner equity investments and employed relatively less debt from outside sources (primarily banks), compared with firms owned by Whites. The average firm in these minority business subgroups operated with substantially less capital overall – both at startup and in subsequent years – relative to their nonminority counterparts (Robb, 2013; Bates and Robb, 2016; Fairlie, Robb, and Robinson, 2016; Robb and Robinson, 2017).

The KFS data showed that minorities were less likely than their non-minority counterparts to apply for new loans in the early years of firm operations. The analyses also suggest that minority owners who did not apply for new loans were significantly more likely than their nonminority counterparts to avoid applying for loans when needed because they were afraid that lenders would decline their loan application. This is even after controlling for credit quality and a host of owner and firm characteristics. (Robb, 2013; Fairlie, Robb, and Robinson, 2016; Robb and Robinson, 2017). Research has shown that minority business owners' fears of being declined for a loan were not necessarily unwarranted. In particular, in terms of loan application outcomes, even after controlling for such factors as industry, legal form, credit score, wealth, and human capital, minority owners of young firms were significantly less likely to have their loan applications approved than were similar white business owners (Robb, 2013).

In spite of the challenges around access to capital, the number of minority-owned businesses continues to grow. A recent study by the Minority Business Development Agency found that the number of minority business enterprises (MBEs) has been growing at a rate at least twice that of nonminority-owned firms, and this trend is expected to continue well into the future. Thus, one of the key constraints limiting the growth of MBEs is access to sufficient financial capital. The Minority Business Development Agency (MBDA) and the Small Business Administration (SBA) have both reported evidence of continuing disparities to accessing capital in recent research studies (Fairlie and Robb, 2010; Cole, 2014). This report seeks to add to this knowledge base with newly available data from the ASE. There has been one research report using the 2014 ASE so far, which was published by the Aspen Institute and focuses on the challenges facing minority businesses and how business ownership can help close the racial wealth gap (Klein, 2017). The report shows that the low levels of business assets held by

Hispanic and Black Americans are driving the racial and ethnic wealth gaps we see. However, the fact that business creation among these two groups exceeds that of Whites is a trend in the right direction.

Research Methodology

The 2014 Annual Survey of Entrepreneurs, which was released in September 2016, provides, for the first time, detailed financing information and credit market experiences of more than 200,000 businesses broken out by owner demographics (race, ethnicity, and gender) and firm characteristics, such as age and industry. The level of detail for this number of firms is unprecedented (Foster and Norman, 2016).[3]

This study leverages the detailed tabular output of the data provided by the U.S. Census Bureau. While the public use microdata will not be available for some time, the detailed output published by the Census Bureau provides an opportunity to delve into the descriptive statistics for firm financing by owner race and ethnicity, as well as, in some cases, additionally by firm age and industry. The specific financing questions that were analyzed for this report can be found in Appendix 1, while Appendix 2 provides a list of publicly available tables produced by the Census Bureau that were used for this report.

For minority/non-minority comparisons in the following tables, all of the non-white racial groups (Black, Asian, American Indian, Alaska Native, Native Hawaiian, Other Pacific Islander, and "Other") and Hispanics are combined together into one group: minority. This implies that

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[3] Since the Survey of Small Business Finances was canceled after the 2003 survey and the Kauffman Firm Survey covered just one cohort of startups that began operations in 2004 and tracked over the eight-year period of 2004-2011, researchers and policymakers have been extremely limited in terms of access to data on financing by small businesses with owner demographics. The 2012 Survey of Business Owners has only limited information on the amounts and sources of financing and does not have detail on the amounts by source, so the relative importance of the different sources are unknown. There is also no information on credit market experiences.

non-minority would include only those businesses owned by non-Hispanic Whites. Since those that were equally owned by minorities and non-minorities are such a small group (1.4 percent), they are included in the minority group in the following tables and not presented separately. Likewise, because many of the minority groups are small in number and sample sizes are too small to present them separately, only White, Black, Asian, and Hispanic are individually presented in the following tables.

Sources of Financing Used to Start or Acquire the Business

In terms of the financing detail for starting or acquiring the business, the ASE asks respondents about sources of capital used to start or acquire the business, as well as the amount of financial capital by source. Business owners are asked to provide detail on the number of different sources of financial capital: the business owners themselves, insiders (such as family, friends, and employees); debt financing from banks for other financial institutions; equity from outside investors (venture capitalists, angel investors, and other businesses); and government grants (such as the Small Business Innovation Research (SBIR) program).

Table 2 provides the percentage of businesses that use each source of financial capital to start or acquire the business.[4] Personal and family savings of the owner(s) is the most commonly used source of financing for starting or acquiring the business for all firms, regardless of race or ethnicity. About two-thirds of all firms stated that they used the personal savings of the owner(s) to start or acquire their businesses. For the various minority groups, these percentages were even higher. More than 70 percent of firms with Black or African-American owners, Asian owners, and Hispanic owners invested financial capital from their personal and/or family savings to start

[4] Data for this table come from ASE Table SE1400CSCB07.

or acquire their businesses. For Blacks and Hispanics, recall that their household wealth was less than one tenth that of White households. The amount of capital available to these two minority groups is clearly much lower on average than for Whites.

The next most common source of startup capital, at least overall and for Whites, was a business loan from a bank or a financial institution. Nearly 18 percent of all firms used a bank loan or loan from another type of financial institution for startup financing. The percentages for minority-owned firms were slightly lower: 15.2 percent for Black and African American firms, 15.7 percent for Asian firms, and just 12.9 percent for Hispanic firms. Between six percent and 10 percent of owners stated that they didn't know or remember the sources of financing, while nearly five percent of Asians, six percent of Hispanics, seven percent of Blacks, and nine percent of whites stated that no financial capital was needed to start or acquire their businesses.

Table 2: Sources of Startup Financing by Race/Ethnicity

(Percentage of responding firms using each source)

	All firms	White	Black or African American	Asian	Hispanic
Personal/family savings of owner(s)	63.9	64.5	70.6	73.2	72.3
Personal/family assets other than savings of owner(s)	9.8	9.9	11.3	11.4	9.9
Personal/family home equity loan	7.3	7.3	7.8	9	7.7
Personal credit card(s) carrying balances	10.3	10.3	17.6	10.8	14.9
Business credit card(s) carrying balances	5.3	5.4	8.1	5.2	6
Business loan from federal, state, or local government	0.4	0.4	0.8	0.4	0.4
Government-guaranteed business loan from a bank/fin. institution	1.9	1.9	2.8	2.2	1.3
Business loan from a bank or financial institution	17.9	18.7	15.2	15.7	12.9
Business loan/investment from family/friends	5	5.1	3.5	5.9	4.5
Investment by venture capitalist(s)	0.6	0.5	0.5	0.5	0.5
Grants	0.3	0.2	0.6	0.3	0.2

Other source(s) of capital	3.7	3.3	5.1	3.3	3.8
Don't know	10.4	9.4	6.1	9.8	6.9
None needed	8.9	8.9	7.3	4.7	6.1
Source: 2014 Annual Survey of Entrepreneurs (U.S. Census Bureau 2016)					
Notes:					
Minority includes: Black or African American, Asian, Hispanic, American Indian and Alaska Native, Native Hawaiian and Other Pacific Islander, and "Some Other Race") Minority includes both minority owned and 50/50 minority/non-minority owned Non-Minority indicates ownership of more than 50% by non-Hispanic white owners Racial/Ethnic groups indicate more than 50% of ownership held by that group Percentages indicate % of firms responding to the 2014 ASE					

A greater percentage of Black and African American firms relied on personal credit cards as a source of startup capital (17.6 percent) than on bank loans (15.2 percent). The same was the case for Hispanics (14.9 percent versus 12.9 percent). Only about 10 percent of white-owned firms used personal credit cards as a source of startup capital. Note that these firms are using credit cards as a source of financing, carrying balances and paying a much higher interest rate than a typical bank loan, and not using credit cards solely for transactional purposes. Credit cards are seen as an inferior source of borrowing because of the high costs associated with them.

The next table presents minority and non-minority comparisons. As shown in **Table 3,** some sources of financial capital were rarely used, regardless of firm owner demographics. Less than one percent of firms relied on outside equity from venture capitalists, business loans from the government, or grant funding.[5] The only source of startup financing that was used by a larger percentage of non-minority firms, compared with minority firms, was business loans from a bank or other financial institutions (19 percent versus 15 percent). Non-minority-owned businesses were also more likely than minority-owned businesses to state that no financing was needed to start or acquire their businesses (9.1 percent versus 5.6 percent). In all other cases, minority-

[5] Data for this table come from ASE Table SE1400CSCB07.

owned firms were as likely as or more likely to use the other sources of financing than were non-minority-owned firms. Given previous research, which shows lower levels of financing on average, at least among Blacks and Hispanics, compared with Whites, this would indicate minority-owned firms had to seek out financing from a number of sources, given the lower amounts of financing available from each source. Indeed, we'll see a bit later that minorities had higher rates of seeking new financing relationships, compared with non-minorities. One important note to point out with minority/non-minority comparisons is that some differences can be more muted given the similarities between Asians and Whites. By combining Asians with Hispanics and Blacks, some of the racial and ethnic differences seen in the financing patterns and sources across the individual groups are more muted when the minority groups are combined together.

Table 3: Sources of Startup Financing by Race/Ethnicity		
(Percentage of responding firms using each source)		
	Minority	Non-minority
Personal/family savings of owner(s)	72.2	64
Personal/family assets other than savings of owner(s)	11.0	9.9
Personal/family home equity loan	8.6	7.2
Personal credit card(s) carrying balances	13.2	10
Business credit card(s) carrying balances	6.1	5.3
Business loan from federal, state, or local government	0.5	0.4
Government-guaranteed business loan from a bank/financial institution	2.1	1.9
Business loan from a bank or financial institution	15.1	19
Business loan/investment from family/friends	5.3	5.1
Investment by venture capitalist(s)	0.5	0.5
Grants	0.3	0.2
Other source(s) of capital	3.7	3.2
Don't know	8.4	9.7
None needed	5.6	9.1
Source: 2014 Annual Survey of Entrepreneurs (U.S. Census Bureau 2016)		

Notes:
Minority includes: Black or African American, Asian, Hispanic, American Indian and Alaska Native, Native Hawaiian and Other Pacific Islander, and "Some Other Race") Minority includes both minority owned and 50/50 minority/non-minority owned Non-Minority indicates ownership of more than 50% by non-Hispanic white owners Racial/Ethnic groups indicate more than 50% of ownership held by that group Percentages indicate % of firms responding to the 2014 ASE

Amount of Financing Used to Start or Acquire the Business

There are striking differences by race and ethnicity in terms of the total amount of capital used to start or acquire the business.[6] As shown in **Table 4,** about 15 percent of firms used $5,000 or less to start or acquire their businesses, but this varied from a low of 9.4 percent for Asians to nearly 20 percent for African Americans. About 18 percent of white-owned firms used $100,000 or more in financing to start or acquire their businesses, compared with just 13.5 percent of African Americans and 13.7 percent for Hispanics, and more than 28.2 percent for Asians. As noted previously, because the financing patterns by Asians look quite different than the patterns by African Americans and Hispanics, we see that the Minority/Non-Minority comparisons are not as different as when we look at the comparisons by the individual racial and ethnic groups. The similarities of Asians and whites masks the racial and ethnic differences in these financing patterns when Asians are combined with African Americans, Hispanics, and other minorities in the all-minority grouping. The findings that Blacks and Hispanics used less financing to start or acquire their businesses is consistent with findings from prior research, which used the Survey of Business Owners, the Surveys of Small Business Finances, and the Kauffman Firm Survey.

[6] Data for this table come from ASE Table SE1400CSCB08.

Table 4: Amounts of Startup Financing by Race/Ethnicity							
(Distribution of Firms by Financing Amounts)							
	All firms	White	Black or African American	Asian	Hispanic	Minority	Non-minority
Less than $5,000	14.9	15.8	19.1	9.4	16	12.83	15.8
$5,000 to $9,999	8.3	8.7	10.8	6.3	12.6	8.78	8.4
$10,000 to $24,999	11.9	12.1	15.5	11.4	16.4	13.27	11.9
$25,000 to $49,999	9.4	9.4	10.8	11.2	11.7	11.26	9.3
$50,000 to $99,999	10.1	9.9	11.8	14	11.3	12.75	9.9
$100,000 to $249,999	10	9.6	7.7	16.2	8.3	12.65	9.7
$250,000 to $999,999	6.6	6.5	4.7	9.4	4.5	7.36	6.5
$1,000,000 or more	2.2	2	1.1	2.6	0.9	1.97	2.1
Don't know	17.7	17.1	11.2	14.6	12.2	13.53	17.5
Not applicable	8.9	8.9	7.3	4.8	6.1	5.60	9.1
Source: 2014 Annual Survey of Entrepreneurs (U.S. Census Bureau 2016)							
Notes:							
Minority includes: Black or African American, Asian, Hispanic, American Indian and Alaska Native, Native Hawaiian and Other Pacific Islander, and "Some Other Race") Minority includes both minority owned and 50/50 minority/non-minority owned Non-Minority indicates ownership of more than 50% by non-Hispanic white owners Racial/Ethnic groups indicate more than 50% of ownership held by that group Percentages indicate % of firms responding to the 2014 ASE							

Amounts of Financing used in 2014 by Sources of Financing

The next set of tables breaks out the amounts of financial capital used by businesses in 2014 by the source of financing. [7] The first table, **Table 5,** shows the distribution of owner financing used by firm owner race and ethnicity. For example, while 45 percent of firms overall did not rely on owner financing in 2014, only 26.5 percent of African American-owned firms and one third of Asian-owned and Hispanic-owned firms did not rely on owner financing in

[7] Data for this table come from ASE Table SE1400CSCB09.

2014. Nearly a quarter of white-owned firms used up to $25,000 in owner financing, while 10 percent of white-owned firms used $250,000 or more. The corresponding percentages for African-American- owned firms were 33 percent and 16.1 percent. For Asians, the percentages were 24.7 percent and 16.1 percent and for Hispanics, 30.5 percent and 12.2 percent.

Given the lower wealth levels of African Americans and Hispanics, it's interesting to note the reliance on owner financing in the highest amount category exceeded that of whites. It would be interesting to look at whether or not those firms using such high amounts of owner financing were those that had the most unmet credit needs from sources such as financial institutions. Unfortunately, such analyses require access to the confidential microdata in the Center for Economic Studies or in one of the research data centers.

Table 5: Amounts of Financing in 2014 by Owner by Race/Ethnicity

(Distribution of Firms by Owner Financing Amounts)

	All firms	White	Black or African American	Asian	Hispanic	Minority	Non-minority
$0	45.3	47.1	26.5	33.4	35.1	34.1	47.7
$1 to $4,999	6.1	6.2	7.8	5.2	6.8	5.9	6.2
$5,000 to $9,999	5.4	5.3	6.9	5.6	7.4	6.2	5.2
$10,000 to $24,999	12.6	12.2	18.3	13.9	16.3	14.9	12.1
$25,000 to $49,999	5.9	5.8	9.5	6.2	7.9	7.1	5.7
$50,000 to $99,999	7.1	6.8	9.4	9.3	8	8.8	6.7
$100,000 to $249,999	6.9	6.6	7.7	10.2	6.3	8.6	6.6
$250,000 or more	10.7	10	14	16.1	12.2	14.3	9.9

Source: 2014 Annual Survey of Entrepreneurs (U.S. Census Bureau 2016)

<u>Notes:</u>

Minority includes: Black or African American, Asian, Hispanic, American Indian and Alaska Native, Native Hawaiian and Other Pacific Islander, and "Some Other Race")
Minority includes both minority owned and 50/50 minority/non-minority owned
Non-Minority indicates ownership of more than 50% by non-Hispanic white owners
Racial/Ethnic groups indicate more than 50% of ownership held by that group
Percentages indicate % of firms responding to the 2014 ASE

Family, friends and employees are the next source of financing for ongoing business needs in 2014. As shown in **Table 6,** this source of financing was used by more than a quarter of Asian-owned businesses, but only 11 percent of white-owned businesses.[8] About 18.6 percent of African-American owned businesses relied on this source of financing, compared with 17.6 percent of Hispanic-owned businesses. The percentage of firms using high amounts of financing from this source was quite small across the board, but it's interesting to note that a higher percentage of African American firms, Asian firms, and Hispanic firms were in the top category of $250,000 or more, compared with white-owned firms. Most notably, 7.6 percent of Asian firms used $100,000 or more from family, friends, and employees, compared with just 2.5 percent of white-owned firms, 3.7 percent of African-American firms, and 3.9 percent of Hispanic-owned firms.

The next source of financing for 2014 is banks and other financial institutions. The issue of access to bank loans is important because financial institutions provide more debt capital to small businesses than all other sources combined. According to statistics based on the Federal Reserve's Survey of Small Business Finances (SSBF) database, banks account for over 90 percent of all small business debt financing. Minority business enterprises (MBEs), although somewhat less reliant on bank loans than others, nonetheless obtain much of their debt capital from banks (Bates, 2011).

[8] Data for this table come from ASE Table SE1400CSCB09.

Table 6: Amounts of Financing in 2014 by Family, Friends, and Employees by Race/Ethnicity							
(Distribution of Firms by Family, Friends, and Employees Financing Amounts)							
	All firms	White	Black or African American	Asian	Hispanic	Minority	Non-minority
$0	87.5	89	81.4	73.7	82.4	78.5	89.3
>$0	12.5	11	18.6	26.3	17.6	11.5	10.7
$1 to $4,999	2.4	2.2	4	3.7	3.7	3.5	2.2
$5,000 to $9,999	1.5	1.4	2.6	2.7	2.4	2.5	1.3
$10,000 to $24,999	2.9	2.6	4.7	6.3	4.2	5.1	2.5
$25,000 to $49,999	1.3	1.1	1.8	2.7	1.6	2.1	1.1
$50,000 to $99,999	1.4	1.2	1.7	3.3	1.9	2.5	1.2
$100,000 to $249,999	1.2	1	0.9	3.2	1.4	2.2	1
$250,000 or more	1.8	1.5	2.8	4.4	2.5	3.4	1.5
Source: 2014 Annual Survey of Entrepreneurs (U.S. Census Bureau 2016)							
Notes:							
Minority includes: Black or African American, Asian, Hispanic, American Indian and Alaska Native, Native Hawaiian and Other Pacific Islander, and "Some Other Race") Minority includes both minority owned and 50/50 minority/non-minority owned Non-Minority indicates ownership of more than 50% by non-Hispanic white owners Racial/Ethnic groups indicate more than 50% of ownership held by that group Percentages indicate % of firms responding to the 2014 ASE							

As shown in **Table 7,** about one third of businesses used banks and other financial institutions as a source of capital for financing business operations in 2014, regardless of race or ethnicity.[9] Nearly 14 percent of White and Asian-owned businesses borrowed $100,000 or more from financial institutions, compared with just over 11 percent for businesses owned by Blacks and Hispanics. Blacks and Hispanics were also more likely to be in the smallest amount categories ($25,000 or less), compared with Whites and Asians.

[9] Data for this table come from ASE Table SE1400CSCB09.

Table 7: Amounts of Financing in 2014 by Banks and Other Financial Institutions by Race/Ethnicity							
(Distribution of Firms by Banks and Other Financial Institutions Financing Amounts)							
	All firms	White	Black or African American	Asian	Hispanic	Minority	Non-minority
$0	65.4	64.8	63.9	68.7	64.3	66.2	64.8
$1 to $4,999	2	2	3.4	2.2	2.8	2.5	2
$5,000 to $9,999	2.5	2.6	3.5	2.3	3.5	2.8	2.6
$10,000 to $24,999	6.6	6.9	7.7	5.6	7.9	6.7	6.8
$25,000 to $49,999	4.4	4.7	4.8	3.2	4.6	3.9	4.7
$50,000 to $99,999	5	5.2	5.5	4.2	5.4	4.9	5.2
$100,000 to $249,999	5	5.1	3.8	4.8	4.2	4.6	5.2
$250,000 or more	8.9	8.7	7.5	9	7.2	8.4	8.8
Source: 2014 Annual Survey of Entrepreneurs (U.S. Census Bureau 2016)							
Notes:							
Minority includes: Black or African American, Asian, Hispanic, American Indian and Alaska Native, Native Hawaiian and Other Pacific Islander, and "Some Other Race") Minority includes both minority owned and 50/50 minority/non-minority owned Non-Minority indicates ownership of more than 50% by non-Hispanic white owners Racial/Ethnic groups indicate more than 50% of ownership held by that group Percentages indicate % of firms responding to the 2014 ASE							

Establishing New Funding Relationships

Business owners were asked if the business attempted to establish any new funding relationships in 2014 with a number of different sources.[10] If they did attempt to establish a new funding relationship, they were asked if they received the entire amount that they requested or just part (or none) of the amount that they requested. Results for establishing new funding relationships are shown in **Table 8,** while the outcomes of those attempts are shown in **Table 9.**

The two most common sources of financing for new funding relationship attempts in 2014 were banks and other financial institutions (13.1 percent of firms) and credit cards (10.5 percent of firms). African-American businesses and Hispanic businesses were the most likely to attempt these new funding relationships with both sources. 17.8 percent of African-American business owners and 14.6 percent of Hispanic business owners attempted new funding relationships with banks or other financial institutions. This compares with 13.2 percent of white-owned businesses and 12.2 percent of Asian-owned businesses. Nearly 16 percent of African-American and Hispanic-owned businesses attempted new funding relationships through credit cards, compared with 13 percent of Asians and 10.3 percent of white-owned firms. As we'll see in **Table 9,** African American and Hispanic-owned firms were less successful in obtaining funding from the various sources and hence their reliance on multiple sources of financing for their companies.

[10] Data for this table come from ASE Table SE1400CSCB10.

Table 8: Attempted New Funding Relationships by Race/Ethnicity							
(Distribution of Firms by Attempt to Establish New Funding Relationships)							
	All firms	White	Black or African American	Asian	Hispanic	Minority	Non-minority
Owner(s)	1.8	1.6	2.7	3.2	2.7	2.9	1.5
Friends, Family, Employees	2.8	2.2	5.9	7.7	4.3	6.2	2.1
Banks Credit Unions, or other Fin. Institutions	13.1	13.2	17.8	12.2	14.6	13.7	13.1
Home equity loans in name of business owner(s)	2.4	2.2	3.1	4.4	2.8	3.7	2.2
Credit Cards	10.5	10.3	15.8	13	15.8	14.3	9.9
Trade Credit	3.1	3	3.9	3.7	3.9	3.8	3
Angel Investors	0.7	0.6	1	1.6	0.9	1.3	0.6
Venture Capitalists	0.7	0.6	1.2	1.7	1	1.3	0.6
Other Investor Businesses	1.9	1.7	2.4	2.5	2.3	2.4	1.7
Crowdfunding Platform	0.5	0.4	0.9	1.3	0.7	1	0.4
Grants	0.8	0.6	1.7	1.6	0.9	1.4	0.6
Source: 2014 Annual Survey of Entrepreneurs (U.S. Census Bureau 2016)							
Notes:							
Minority includes: Black or African American, Asian, Hispanic, American Indian and Alaska Native, Native Hawaiian and Other Pacific Islander, and "Some Other Race") Minority includes both minority owned and 50/50 minority/non-minority owned Non-minority indicates ownership of 50% or more by non-Hispanic white owners Racial/Ethnic groups indicate more than 50% of ownership held by that group Percentages indicate % of firms responding to the 2014 ASE							

Unmet Credit Needs

As shown in **Table 9,** minorities, especially African-Americans, were much more likely to have unmet credit needs.[11] With many of the sources, African-Americans were twice as likely (or more) as white business owners to state that they did not receive the full amount of funding requested. For example, 53 percent of African-Americans stated that they did not receive the amount of funding requested from banks or other financial institutions, compared with just 24.5 percent of whites. The percentages for Hispanics and Asians for not receiving the full amount requested from banks and financial institutions were 39 percent and 34.2 percent respectively. Nearly half of African-Americans (49.4 percent) said that they did not receive the full amounts requested from the home equity loans. This compares with more than a quarter (27.5 percent) of Whites, 37.4 percent of Hispanics, and 32.6 percent of Asians. For equity financing, the percentages for Blacks were even higher: 58.8 percent for angel investors and 55.9 percent for venture capitalists. The percentages for whites were about 39 percent for angel investors and venture capitalists. Even among internal sources, African-Americans had much higher levels of unmet credit needs. Asians and Hispanics also had higher unmet credit needs when compared with whites, but the gap was smaller than it was for African Americans.

This is broadly consistent with previous research. Bates and Robb (2015) analyzed KFS data describing firm and owner traits to determine both the extent of unmet small business credit needs and outcomes of their applications for bank loans over the 2008-2011 period. Firms owned by Blacks, Hispanics, and Asians were more likely to have their loan applications denied by banks, compared with businesses owned by Whites. Older studies based on nationwide SSBF data consistently find large denial-rate differences across business applicant groups of

[11] Data for this table come from ASE Table SE1400CSCB10.

different race/ethnicities. Examining their most recent loan application only, 9 percent of white applicants for non-line-of-credit bank loans were denied, versus 56 percent of blacks and 63 percent of Hispanics (Mitchell and Pierce, 2011). Black-owned firms have been more widely studied than other MBEs, and their difficulty accessing financing is widely acknowledged (see Bates, 2011; Blanchflower, 2009). The issue emphasized by SSBF-based studies is whether black firms (and MBEs generally) possessing identical risk-related traits (other than race), have less access to bank credit than whites. The consistent finding is that black (and Hispanic) applicants experience a higher incidence of loan denials and pay higher interest rates than whites (Cavalluzzo and Wolken, 2005; Blanchflower, et al., 2003; Blanchflower, 2009).

Table 9: Unmet Credit Needs

(% of firms who established new funding relationship, but who did not receive amount of funding requested by source)

	All firms	White	Black or African American	Asian	Hispanic	Minority	Non-minority
Owner(s)	27.4	25.7	43.0	31.5	29.8	32.4	25.4
Friends, Family, Employees	28.4	24.6	38.8	35.4	31.4	34.6	24.3
Banks Credit Unions, or other Fin. Inst.	26.2	24.5	53.0	34.2	39.0	38.6	23.6
Home equity loans in name of business owner(s)	29.2	27.5	49.4	32.6	37.4	35.2	27.0
Credit Cards	18.3	16.7	37.6	24.6	25.1	26.3	16.1
Trade Credit	17.2	16.0	32.2	23.4	26.3	25.1	15.4
Angel Investors	38.9	39.0	58.8	39.5	27.7	38.7	40.0
Venture Capitalists	38.6	39.1	55.9	36.9	37.5	38.2	39.5
Other Investor Businesses	17.4	15.6	27.2	26.5	14.3	22.4	15.8
Crowdfunding Platform	29.5	29.4	39.9	28.7	31.3	30.2	29.6
Grants	38.9	38.7	54.4	32.9	40.4	37.1	39.3

Source: 2014 Annual Survey of Entrepreneurs (U.S. Census Bureau 2016)

Notes:

Minority includes: Black or African American, Asian, Hispanic, American Indian and Alaska Native, Native Hawaiian and Other Pacific Islander, and "Some Other Race") Minority includes both minority owned and 50/50 minority/non-minority owned Non-Minority indicates ownership of more than 50% by non-Hispanic white owners Racial/Ethnic groups indicate more than 50% of ownership held by that group Percentages indicate % of firms responding to the 2014 ASE

New Funding Relationships and Outcomes by Firm Age

The next table breaks down the attempted funding relationships by firm age for the top four sources of financing: financial institutions, home equity lines of credit, credit cards, and trade credit.[12] As can be seen in **Table 10,** both groups (minorities and non-minorities) had similar application rates to financial institutions and trade credit. However, minorities were around 50 percent more likely than non-minorities to attempt funding through a home equity line of credit, even though overall rates of use were less than five percent. In addition, credit cards had higher rates of application (8-19 percent) and minorities were much more likely to attempt new applications for this source, across all of the firm age groups.

Table 10: Attempted New Funding Relationship by Source			
(By Minority/Non-Minority Ownership and Firm Age)			
	Minority	Non-Minority	Minority/ Non-Minority Difference
Banks, credit unions, or other financial institutions:			
Applied for New Funding Relationship	13.6%	13.0%	0.5%
Firms with less than 2 years in business	14.6%	14.6%	0.0%
Firms with 2 to 3 years in business	13.2%	14.2%	-1.0%
Firms with 4 to 5 years in business	14.7%	14.8%	0.0%
Firms with 6 to 10 years in business	14.1%	13.8%	0.3%
Firms with 11 to 15 years in business	12.5%	11.8%	0.7%
Firms with 16 or more years in business	16.1%	16.3%	-0.3%

[12] Data for this table come from ASE Table SE1400CSCB10

Home equity loans in name of business owners			
Applied for New Funding Relationship	3.4%	2.0%	1.3%
Firms with less than 2 years in business	3.0%	2.0%	0.9%
Firms with 2 to 3 years in business	3.1%	2.3%	0.8%
Firms with 4 to 5 years in business	3.0%	2.1%	0.9%
Firms with 6 to 10 years in business	3.8%	2.2%	1.6%
Firms with 11 to 15 years in business	3.4%	1.9%	1.5%
Firms with 16 or more years in business	2.9%	1.9%	1.0%
Credit Cards			
Applied for New Funding Relationship	14.0%	9.8%	4.2%
Firms with less than 2 years in business	18.7%	14.4%	4.3%
Firms with 2 to 3 years in business	16.9%	13.5%	3.4%
Firms with 4 to 5 years in business	14.6%	12.0%	2.6%
Firms with 6 to 10 years in business	15.2%	11.8%	3.4%
Firms with 11 to 15 years in business	10.6%	7.7%	2.9%
Firms with 16 or more years in business	11.6%	7.7%	3.9%
Trade credit (for example, buy now, pay later):			
Applied for New Funding Relationship	3.5%	2.8%	0.7%
Firms with less than 2 years in business	4.3%	3.6%	0.7%
Firms with 2 to 3 years in business	4.1%	3.6%	0.6%
Firms with 4 to 5 years in business	3.4%	3.3%	0.1%
Firms with 6 to 10 years in business	3.4%	2.8%	0.6%
Firms with 11 to 15 years in business	3.1%	2.5%	0.6%
Firms with 16 or more years in business	1.2%	3.4%	-2.1%
Source: 2014 Annual Survey of Entrepreneurs (U.S. Census Bureau 2016)			
Notes:			
Minority includes: Black or African American, Asian, Hispanic, American Indian and Alaska Native, Native Hawaiian and Other Pacific Islander, and "Some Other Race") Minority includes both minority owned and 50/50 minority/non-minority owned Non-Minority indicates ownership of more than 50% by non-Hispanic white owners Percentages indicate % of firms respondents			

The real differences occur when we look at outcomes, which are shown in **Table 11**.[13] When we look at the outcomes of attempted new funding relationships for banks, credit unions, or other financial institutions, we see that nearly half of minority-owned firms with less than two

[13] Data for this table come from ASE Table SE1400CSCB10.

years in business did not receive the amount they requested. While this percentage declines as firm age rises, we see that 30 percent of minority-owned firms with 16 or more years in business did not receive the full amount requested. If we look at the overall average of not receiving the total amount requested by minorities (38.7 percent), it is much higher than the 23.7 percent for non-minorities. In fact, the 34.8 percent for the youngest firms for non-minorities is lower than all the firm age groups of 10 years or less for minorities. Surprisingly, the percentage point differences between minorities and non-minorities range from 11.5 percent to nearly 16 percent for the firms in the oldest age category.

Table 11: Outcomes of Attempted New Funding Relationship by Source			
(By Minority/Non-Minority Ownership and Firm Age)			
	Minority	Non-Minority	Minority/Non-Minority Difference
Banks, credit unions, or other financial institutions:			
Did not receive total amount requested	38.7%	23.7%	15.0%
Firms with less than 2 years in business	49.1%	34.8%	14.2%
Firms with 2 to 3 years in business	44.4%	30.9%	13.5%
Firms with 4 to 5 years in business	40.8%	27.6%	13.3%
Firms with 6 to 10 years in business	37.1%	25.6%	11.5%
Firms with 11 to 15 years in business	31.7%	19.0%	12.7%
Firms with 16 or more years in business	30.2%	14.3%	15.9%
Home equity loans in name of business owners			
Did not receive total amount requested	38.4%	29.0%	9.3%
Firms with less than 2 years in business	41.9%	36.0%	5.9%
Firms with 2 to 3 years in business	40.8%	35.8%	5.0%
Firms with 4 to 5 years in business	35.2%	32.6%	2.6%
Firms with 6 to 10 years in business	38.2%	29.9%	8.3%
Firms with 11 to 15 years in business	37.0%	25.7%	11.3%
Firms with 16 or more years in business	43.1%	18.0%	25.1%
Credit Cards			
Did not receive total amount requested	26.2%	16.3%	9.9%
Firms with less than 2 years in business	28.8%	20.5%	8.3%
Firms with 2 to 3 years in business	30.2%	19.9%	10.3%
Firms with 4 to 5 years in business	26.5%	19.3%	7.2%
Firms with 6 to 10 years in business	24.9%	16.0%	8.9%
Firms with 11 to 15 years in business	22.0%	13.5%	8.5%
Firms with 16 or more years in business	21.3%	10.5%	10.8%
Trade credit (for example, buy now, pay later):			
Did not receive total amount requested	26.4%	16.3%	10.1%
Firms with less than 2 years in business	26.9%	25.3%	1.5%
Firms with 2 to 3 years in business	28.4%	19.0%	9.4%
Firms with 4 to 5 years in business	21.1%	20.5%	0.7%
Firms with 6 to 10 years in business	28.9%	17.6%	11.3%
Firms with 11 to 15 years in business	25.1%	12.6%	12.5%
Firms with 16 or more years in business	4.3%	7.9%	-3.5%
Source: 2014 Annual Survey of Entrepreneurs (U.S. Census Bureau 2016)			
Notes:			

Minority includes: Black or African American, Asian, Hispanic, American Indian and Alaska Native, Native Hawaiian and Other Pacific Islander, and "Some Other Race")
Minority includes both minority owned and 50/50 minority/non-minority owned
Non-Minority indicates ownership of more than 50% by non-Hispanic white owners
Percentages indicate % of firms respondents

Overall, the percentage point differences between minorities and non-minorities for the other three sources are all about 10 percentage points. More than 26 percent of minority-owned firms did not receive all the funding requested from credit cards and trade credit, compared with about 16 percent for non-minorities. The gaps were generally pretty consistent across the age groups. For home equity lines of credit, the percentages were higher: 38.4 percent for minorities and 29 percent for non-minorities. For this source, it was actually the older firms that had the higher differences across the two groups, which was a surprise. The most unexpected finding was firms that were 16 years or older had such large racial differences in outcomes for bank financing and home equity lines of credit. This may be why minorities were found to be more likely to access financing from online lenders, compared with traditional financing in the newest Small Business Credit Survey by the Federal Reserve System (Wiersch, Lipman, and Barkley, 2016).

New Funding Relationships and Outcomes by Firm Industry

If we break things down by industry, we see more differences in the attempted funding relationships. For example, as seen in the left hand columns of **Table 12,** for finance and insurance, as well as real estate and leasing, professional, scientific, and technical services, and educational services, we see much higher attempts at new funding relationships by minority-owned firms, compared with firms owned by non-minorities.[14] The columns on the right show the percentage of firms who did not receive the total amount requested. Again, minority-owned firms, across the board, had higher rates of unmet credit needs, compared with non-minority-owned firms. The differences ranged from minorities having unmet needs of 114% (accommodation and food services) of the non-minority rates to more than 220% (wholesale). Several industries, including agriculture, manufacturing, transportation and warehousing, and administrative and support and waste management and remediation services, had unmet credit needs for minority business owners that were about twice the rates of nonminority business owners. Part of this may be due to higher capital requirements for certain capital intensive industries.

Table 12: Attempted New Funding Relationship with Banks, Credit Unions, or Other Financial Institution(s) and Outcomes

(By Minority/Non-Minority Ownership and Industry)

	Attempted New Funding Relationship w/Financial Institution		Did Not Receive Total Amount Requested (of those seeking funding)	
	Minority	Non-Minority	Minority	Non-Minority
Agriculture, forestry, fishing and hunting	19.7	22.2	25.2	12.4
Construction	15.4	16.4	37.9	22.3
Manufacturing	18.0	17.6	45.7	20.6
Wholesale trade	17.4	15.0	41.5	22.1
Retail trade	12.7	13.4	42.2	27.2
Transportation and warehousing	22.1	23.6	35.3	18.0
Information	9.5	10.4	48.3	27.2
Finance and insurance	13.1	7.7	40.6	27.3
Real estate and rental and leasing	13.5	9.8	27.7	19.7
Professional, scientific, and technical services	11.9	8.6	43.1	26.9
Administrative and support and waste management and remediation services	15.0	15.6	44.6	22.2
Educational services	13.7	9.3	54.6	32.6

[14] Data for this table come from ASE Table SE1400CSCB10.

Health care and social assistance	13.5	12.1	30.5	20.3
Arts, entertainment, and recreation	13.4	10.9	50.1	28.3
Accommodation and food services	11.7	12.9	34.2	28.7
Other services (except public administration)	11.6	12.9	44.4	28.4
Industries not classified	24.9	18.2	41.0	12.5
Source: 2014 Annual Survey of Entrepreneurs (U.S. Census Bureau 2016)				
Notes:				
Minority includes: Black or African American, Asian, Hispanic, American Indian and Alaska Native, Native Hawaiian and Other Pacific Islander, and "Some Other Race") Minority includes both minority owned and 50/50 minority/non-minority owned Non-Minority indicates ownership of more than 50% by non-Hispanic white owners Percentages indicate % of firms respondents				

Avoidance of Financing when Needed

Related to their credit market experiences, business owners were also asked if at any time during the year the business needed additional financing and the owner(s) chose not to apply. If they answered yes to that question they were then asked for reasons why the business chose not to apply for additional financing. The first row in **Table 13** gives the percentage of firms that said they needed additional financing, but chose not to apply.[15] Overall, 9.6 percent of firms responded in the affirmative to this question, however it varied dramatically by race and ethnicity. More than a quarter of African-Americans (25.7 percent) and nearly 15 percent of Hispanics responded affirmatively to this question, compared with just 9.4 percent of whites and 9.8 percent of Asians.

The next set of rows of **Table 13** provides the reasons why the business owners didn't apply for financing even when they needed it. Here we see African-Americans and Hispanics were much more likely to think that their loan application would not be approved. 58.5 percent

[15] Data for this table come from ASE Table SE1400CSCB11.

of African-Americans and 53.1 percent of Hispanics cited this as a reason, compared with 47.4 percent of whites and 43.6 percent of Asians. The most common reason given by whites and Asians was that they didn't want to accrue debt. Hispanics also cited this as the most common reason, although it was cited only slightly more than the fear of denial. The cost of the financing was cited by about a third of all business owners. The other reasons given were cited much less frequently than these top three reasons listed above.

Table 13: Discouraged Borrowers
(Percentage of firms that needed additional financing but chose not to apply (and reasons why))

	All firms	White	Black or African American	Asian	Hispanic	Minority	Non-minority
Needed additional financing but chose not to apply	9.6	9.4	25.7	9.8	14.8	13.3	9.0
Did not think business would be approved by lender	47.5	47.4	58.5	43.6	53.1	50.6	46.6
Did not want to accrue debt	63.0	64.1	56.3	59.3	56.2	58.3	64.8
Decided the financing costs would be too high	29.6	29.4	31.6	33.2	31.6	32.2	28.9
Preferred to reinvest the business profits instead	14.5	14.4	15.2	15.2	17.4	16.2	14.1
Felt the loan search/application process would be too time consuming	16.1	16.2	16.1	16.4	15.3	16.3	16.0
Decided the additional financing was no longer needed	5.5	5.4	4.0	7.4	5.0	5.7	5.4
Decided to wait until funding conditions improved	14.3	14.1	17.4	14.6	17.0	15.7	13.8
Decided to wait until company hit milestones to be in stronger position	13.7	13.6	16.6	13.5	13.8	14.3	13.4
Other reason for not	6.6	6.8	3.8	5.0	5.8	5.3	6.9

applying for additional financing							
Source: 2014 Annual Survey of Entrepreneurs (U.S. Census Bureau 2016)							
Notes:							
Minority includes: Black or African American, Asian, Hispanic, American Indian and Alaska Native, Native Hawaiian and Other Pacific Islander, and "Some Other Race") Minority includes both minority owned and 50/50 minority/non-minority owned Non-Minority indicates ownership of more than 50% by non-Hispanic white owners Racial/Ethnic groups indicate more than 50% of ownership held by that group Percentages indicate % of firms responding to the 2014 ASE Excluded those who answered, "Not applicable" or "Don't know"							

These findings are consistent with previous research and other data sources. Using the KFS, Fairlie, Robb, and Robinson (2016) found that even the most credit-worthy minority borrowers anticipated being denied credit, which caused many well qualified minority borrowers to not apply for credit, even when they felt they needed it. Among SSBF firms needing credit, furthermore, owners often report not applying for loans because they fear rejection. After controlling statistically for the presumed greater credit risks posed by MBEs needing but not applying for credit, Blanchflower et al., (2003), found remaining gaps of 26 and 15 percentage points, respectively, for Blacks and Hispanics (relative to whites) [16]

A recent audit study of small-business owners seeking bank loans by Bone et al. (2015) focused on identifying bank-lending criteria at the initial stage of inquiry. They found that Black- and Hispanic-owners were treated differently than matched whites. Typifying audit studies, the white and minority testers were matched regarding age, gender, credit history, personal net worth, characteristics of the loans being sought, and other traits, and their differential treatment was strongly consistent with minority owners being treated worse than whites.

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[16] Asian-owned firms are routinely identified as less likely than whites to have their loan applications approved, but owner race emerges inconsistently as a significant determinant of application rejection, perhaps due to sample-size constraints.

A key objective of this study was to determine whether the testers encountered similar scrutiny from loan officers when applying for loans. In comparison to white testers, minorities were more often asked to provide business financial statements (83 vs. 50 percent), income-tax returns (86 vs. 52 percent), bank account information (25 vs. 0 percent), personal financial asset details (60 vs. 22 percent), and credit-card debt (42 vs. 13 percent). Additionally, minorities were offered less frequent assistance than whites in completing loan applications (18 vs. 59 percent), and loan officers offered business cards to minority testers less often (43 vs. 82 percent) (Bone, et al., 2015). Overall, minorities were consistently offered less assistance and subjected to greater scrutiny, in comparison with the white testers. MBE discouraged borrowers are numerous in part because the applicant review practices of loan officers actively discourage potential MBE applicants from actually applying for loans.

These research findings, on both the supply side and demand side, suggest that overcoming racial and ethnic differences between borrowers (and potential borrowers) is not simply a matter of expanding the supply of credit available. Getting to the root cause of racial differences in the way businesses are financed likely requires changes in perceptions and financial planning behaviors of borrowers, as well as changes in lending practices by suppliers, as much as it requires augmenting the supply of credit to traditionally underserved borrowers (Fairlie, Robb, and Robinson, 2017).

Avoidance of Financing when needed by Firm Age

The data allow us to break this out further by firm age. The first table shows the three groups broken out separately: Blacks, Asians, and Hispanics. The second table shows all firms, minority-firms, and non-minority firms.[17] Both tables also break out firms by the youngest and oldest firm age categories. We can see in **Table 14** that choosing not to apply for capital when it's needed generally declines with firm age for both Blacks and Asians. For Blacks, the youngest firms (<2 years) had the highest rates (around 29 percent), dropping down to 14.4 percent of firms in the oldest firm category (16+ years).

Nearly 70 percent of Black-owned firms less than two years old stated that they did not apply because they didn't think the lender would approve their loan application. Just over a third of firms in the oldest firm age category cited this reason. More than two thirds in the oldest category stated not wanting to accrue debt as a reason, while half cited high financing costs. For Asians, fewer than 10 percent stated that they didn't apply for credit when needed, with the youngest firms being more likely (11.1 percent) and the oldest firms being the least likely (8.7 percent). The reasons differed by firm age as well, with older firms less likely to cite not being approved by the lender and most likely to cite not wanting to accrue debt. About a third of companies, regardless of firm age cited the high costs of financing.

Hispanics, on the other hand, had a less clear relationship of avoidance of financing when needed and firm age. About 18 percent of the youngest and oldest firms cited they had avoided financing, while the middle age categories ranged from 13 to 16 percent. As firms age, they are less likely to cite that the lender wouldn't approve their loan application as the reason for not applying for a loan. This went from a high of more than 60 percent for the youngest firms to less than 30 percent for the oldest firms.

[17] Data for this table come from ASE Table SE1400CSCB11.

Overall, we see that the incidence of not applying for funding when needed declines steadily with firm age. As shown in **Table 15,** it went from a high of 12.7 percent for firms less than two years old, to a low of 6.5 percent for firms 16 years and older.

Table 14: Discouraged Borrowers

Black or African American	All	Less than 2 years	16+ years
Needed Financing but Chose Not to Apply	25.7	28.8	14.4
Did not think business would be approved by lender	58.5	69.1	34.0
Did not want to accrue debt	56.3	61.8	66.7
Decided the financing costs would be too high	31.6	27.4	50.0
Preferred to reinvest the business profits instead	15.2	17.0	0.7
Felt the loan search/application process would be too time consuming	16.1	17.0	17.4
Decided the additional financing was no longer needed	4.0	3.1	0.0
Decided to wait until funding conditions improved	17.4	17.7	35.4
Decided to wait until the company hit milestones to be in stronger position	16.6	16.0	0.7
Other reason for not applying for additional financing	3.8	1.7	2.8
Asian			
Needed Financing but Chose Not to Apply	9.8	11.1	8.7
Did not think business would be approved by lender	43.6	41.4	26.4
Did not want to accrue debt	59.3	59.5	73.6
Decided the financing costs would be too high	33.2	35.1	33.3
Preferred to reinvest the business profits instead	15.2	13.5	9.2
Felt the loan search/application process would be too time consuming	16.4	13.5	13.8
Decided the additional financing was no longer needed	7.4	8.1	9.2
Decided to wait until funding conditions improved	14.6	13.5	28.7
Decided to wait until the company hit milestones to be in stronger position	13.5	16.2	9.2
Other reason for not applying for additional financing	5.0	3.6	9.2
Hispanic			
Needed Financing but Chose Not to Apply	14.8	17.7	18.4

	Did not think business would be approved by lender	53.1	60.5	29.3
	Did not want to accrue debt	56.2	54.8	47.3
	Decided the financing costs would be too high	31.6	31.6	32.6
	Preferred to reinvest the business profits instead	17.4	21.5	15.8
	Felt the loan search/application process would be too time consuming	15.3	14.1	0.0
	Decided the additional financing was no longer needed	5.0	5.6	5.4
	Decided to wait until funding conditions improved	17.0	18.6	21.2
	Decided to wait until the company hit milestones to be in stronger position	13.8	20.9	6.0
	Other reason for not applying for additional financing	5.8	4.0	0.0
Source: 2014 Annual Survey of Entrepreneurs (U.S. Census Bureau 2016)				
Notes:				
Minority includes: Black or African American, Asian, Hispanic, American Indian and Alaska Native, Native Hawaiian and Other Pacific Islander, and "Some Other Race") Minority includes both minority owned and 50/50 minority/non-minority owned Non-Minority indicates ownership of more than 50% by non-Hispanic white owners Racial/Ethnic groups indicate more than 50% of ownership held by that group Percentages indicate % of firms responding to the 2014 ASE				

Table 15: Discouraged Borrowers			
(by Minority/Non-Minority Ownership and Firm Age)			
All firms	All	Less than 2 years	16+ years
Needed Financing but Chose Not to Apply	9.6	12.7	6.5
Did not think business would be approved by lender	47.5	52.8	43.1
Did not want to accrue debt	63.0	60.6	56.9
Decided the financing costs would be too high	29.6	29.9	24.6
Preferred to reinvest the business profits instead	14.5	15.7	10.8
Felt the loan search/application process would be too time consuming	16.1	15.7	12.3
Decided the additional financing was no longer needed	5.5	4.7	4.6
Decided to wait until funding conditions improved	14.3	13.4	12.3
Decided to wait until the company hit milestones to be in stronger position	13.7	17.3	9.2
Other reason for not applying for additional financing	6.6	7.1	10.8
Minority-Owned Firms			
Needed Financing but Chose Not to Apply	13.3	15.5	11.1
Did not think business would be approved by lender	50.6	54.8	32.3
Did not want to accrue debt	58.3	57.6	61.3
Decided the financing costs would be too high	32.2	31.4	35.7
Preferred to reinvest the business profits instead	16.2	17.3	11.1
Felt the loan search/application process would be too time consuming	16.3	14.7	8.9
Decided the additional financing was no longer needed	5.7	5.6	5.7
Decided to wait until funding conditions improved	15.7	15.7	23.0
Decided to wait until the company hit milestones to be in stronger position	14.3	17.5	7.7
Other reason for not applying for additional financing	5.3	5.0	3.5
Non-Minority Owned Firms			
Needed Financing but Chose Not to Apply	9.0	12.0	7.0
Did not think business would be approved by lender	46.6	52.5	47.1
Did not want to accrue debt	64.8	62.5	57.1
Decided the financing costs would be too high	28.9	29.2	22.9
Preferred to reinvest the business profits instead	14.1	15.0	10.0
Felt the loan search/application process would be too time consuming	16.0	16.7	14.3
Decided the additional financing was no longer needed	5.4	4.2	4.3

	Decided to wait until funding conditions improved	13.8	12.5	10.0
	Decided to wait until the company hit milestones to be in stronger position	13.4	16.7	8.6
	Other reason for not applying for additional financing	6.9	7.5	10.0
Source: 2014 Annual Survey of Entrepreneurs (U.S. Census Bureau 2016)				

Notes:
Minority includes: Black or African American, Asian, Hispanic, American Indian and Alaska Native, Native Hawaiian and Other Pacific Islander, and "Some Other Race")
Minority includes both minority owned and 50/50 minority/non-minority owned
Non-Minority indicates ownership of more than 50% by non-Hispanic white owners
Racial/Ethnic groups indicate more than 50% of ownership held by that group
Percentages indicate % of firms responding to the 2014 ASE

The Impact of Access and Cost of Capital on Firm Profitability

The survey also asked business owners if various challenges, such as access to financial capital and/or the cost of financial capital, had a negative impact on the profitability of the business. These two challenges, as well as a variety of others, are shown in **Table 16**.[18] Minority businesses, especially African American-owned businesses, were much more likely than non-minorities to state that access to financial capital and the cost of financial capital had negative impacts on business profits. Nearly 29 percent of African American businesses said that access to financial capital had a negative impact on business profits, compared with just 10 percent of white-owned businesses. More than 17 percent of Hispanic-owned businesses and nearly 14 percent of Asian-owned businesses stated that access to financial capital had a negative impact on their profits. Cost of capital was also more likely to have a negative impact on minority-owned firms than firms owned by whites. Nearly 23 percent of black-owned firms and nearly 16 percent of Asians and Hispanics noted this was the case, compared with less than 11 percent for firms owned by whites. It is interesting to note, however, that access to capital and cost of capital were cited by fewer

[18] Data for this table come from ASE Table SE1400CSCB13.

businesses than most of the other challenges, such as unpredictability of business conditions, slow or lost sales, or late or nonpayment from customers.

Table 16: Sources of Negative Impact on Profitability

(% Of firms who experienced a negative impact by race/ethnicity)

Source of Negative Impact:	All firms	White	Black or African American	Asian	Hispanic	Minority	Non-minority
Access to Financial Capital	10.8	10.1	28.4	13.9	17.5	16.3	9.7
Cost of Financial Capital	11.3	10.6	22.6	15.9	15.8	16.3	10.4
Not Finding Qualified Labor	27.2	27.3	31.3	28.3	26.8	28.6	27.2
Taxes	48.8	50.2	50.0	43.5	45.6	46.0	50.3
Slow Business or Lost Sales	43.8	42.9	54.4	53.6	48.7	51.5	42.6
Late or Non-payment from Customers	30.3	30.9	41.1	26.4	34.0	30.7	30.7
Unpredictability of Business Conditions	43.9	44.0	49.1	46.1	43.1	45.6	44.0
Changes or Updates in Technology	15.8	15.2	17.7	22.5	15.0	19.2	15.2

Source: 2014 Annual Survey of Entrepreneurs (U.S. Census Bureau 2016)

Notes:

Minority includes: Black or African American, Asian, Hispanic, American Indian and Alaska Native, Native Hawaiian and Other Pacific Islander, and "Some Other Race")
Minority includes both minority owned and 50/50 minority/non-minority owned
Non-Minority indicates ownership of more than 50% by non-Hispanic white owners
Racial/Ethnic groups indicate more than 50% of ownership held by that group
Percentages indicate % of firms responding to the 2014 ASE

Access and Cost of Capital and Negative Impact on Profitability by Industry and Minority/Non-Minority Ownership

Table 17 presents the results for the negative impacts of access to capital and cost of capital by minority and non-minority ownership and firm industry.[19] In terms of access to capital, minority-owned business were much more likely to state that this had a negative impact on profitability, compared with firms owned by non-minorities, across all the different industries. Some industries, such has mining, manufacturing, wholesale trade, transportation, finance, real estate, professional services, and health care, minorities were two to three times as likely to experience a negative impact from the lack of access to credit. Minority firms in mining, construction, manufacturing, wholesale, retail, and transportation had the highest percentages of firms citing a negative impact on profitability from the lack of access to credit.

In terms of the cost of capital, minority-owned firms were more likely than non-minorities to experience a negative impact from this on profitability in every industry except information. The widest gaps were in the industries of wholesale, finance, transportation, and educational services. The industries with the highest percentage of minority-owned firms citing a negative impact from the cost of capital (18 percent or more) were manufacturing, wholesale, retail, and transportation. The highest for non-minorities were retail, accommodation, and food services (between 13 and 14 percent).

[19] Data for this table come from ASE Table SE1400CSCB13.

Table 17: Access and Cost of Capital and Negative Impact on Profitability				
(By Minority/Non-Minority Ownership and Firm Industry)				
	Negative impact from access to financial capital		Negative impact from cost of financial capital	
	Minority	Non-Minority	Minority	Non-Minority
Agriculture, forestry, fishing and hunting	10.9	9.0	12.7	11.3
Mining, quarrying, and oil and gas extraction	19.2	6.3	14.7	7.9
Construction	18.2	11.5	15.8	11.7
Manufacturing	20.2	10.6	18.3	12.6
Wholesale trade	19.9	10.8	19.0	11.2
Retail trade	18.4	12.9	18.7	13.8
Transportation and warehousing	23.2	10.7	22.4	12.4
Information	14.8	13.1	11.7	12.6
Finance and insurance	15.8	6.7	13.7	6.4
Real estate and rental and leasing	15.4	6.9	13.5	7.1
Professional, scientific, and technical services	13.6	7.2	12.3	7.1
Management of companies and enterprises	10.1	8.1	11.5	10.4
Administrative and support and waste management and remediation services	17.9	10.3	17.0	10.3
Educational services	16.3	10.2	17.0	9.9
Health care and social assistance	13.2	6.6	14.2	8.5
Arts, entertainment, and recreation	17.2	10.6	16.0	11.3
Accommodation and food services	15.5	11.7	17.6	13.1
Other services (except public administration)	16.4	11.0	17.5	11.8
Industries not classified	22.3	5.4	20.5	9.0
Source: 2014 Annual Survey of Entrepreneurs (U.S. Census Bureau 2016)				
Notes:				
Minority includes: Black or African American, Asian, Hispanic, American Indian and Alaska Native, Native Hawaiian and Other Pacific Islander, and "Some Other Race") Minority includes both minority owned and 50/50 minority/non-minority owned Non-Minority indicates ownership of more than 50% by non-Hispanic white owners Percentages indicate % of firms respondents				

Reasons for Business Closure

One final question on the survey addressed the implications of financial capital, or lack thereof, for businesses. Respondents were asked if their businesses were still operating in 2014. If respondents indicated that the businesses had ceased operations, they were asked why operations had ceased. A few of the reasons were related to financial capital: inadequate cash flow or sales, lack of business loans/credit, and/or a lack of personal loans/credit. These were grouped into one category. All of the other reasons - owner(s) had military deployment, retired, died, started another business, or sold the business, or because the business operated for a specific or one-time event, or for some other reason - were grouped in a separate category.

As shown in **Table 18,** nearly five percent of African-American owned firms indicated they had ceased operations due to reasons around financing.[20] White owned firms were much more likely to cite other reasons for closure (4.5 percent) than financial reasons (2.4 percent). This was similar to Asians (5.4 percent versus 2.8 percent). The opposite was true for African Americans (4.6 percent versus 2.9 percent). For Hispanics, the percentages for both sets of reasons were similar (2.9 percent cited reasons related to financial capital and 3.1 percent cited other reasons). Thus, Blacks and Hispanics were much more likely to cite financial reasons for their closure, compared with White and Asian owners.

[20] Data for this table come from ASE Table SE1400CSCB27.

Table 18: Reasons that a Business Ceased Operations				
	White	Black	Asian	Hispanic
Business is currently operating	93.1	92.5	91.8	93.9
Reasons for Ceasing Operations:				
Inadequate cash flow or sales, lack of business or personal loans/credit	2.4	4.6	2.8	2.9
Operations ceased for another reason	4.5	2.9	5.4	3.2
Source: 2014 Annual Survey of Entrepreneurs (U.S. Census Bureau 2016)				
Notes:				
Racial/Ethnic groups indicate more than 50% of ownership held by that group Percentages indicate % of firms responding to the 2014 ASE and question.				

Conclusions

The picture portrayed by these new ASE data is one of continued financing challenges by minority-owned firms. Consistent with prior research using a variety of other data sources, the ASE data show a greater reliance among minority-owned businesses on personal and family savings as a source of startup capital, despite wealth levels of Blacks and Hispanics being less than one tenth those of non-Hispanic Whites. Blacks and Hispanics were less likely to have business bank loans compared with Whites and Asian-owned businesses, which were more likely to use credit card financing for debt than business bank loans.

In terms of startup capital, Blacks and Hispanics were about twice as likely to start their businesses with less than $10,000 in financial capital, compared with Whites and Asians. According to ASE data, Hispanics were more likely than Whites to not receive the full amounts requested from most of the various sources, while Blacks were often twice as likely (or more) to not receive the full amount requested, compared with Whites.

Blacks were also more than two and a half times more likely than Whites to state that their businesses needed credit at some point in 2014, but decided not to apply for a variety of reasons. Hispanics were 50 percent more likely than whites to state this. In terms of reasons given, 47.4 percent of Whites said that they thought the lender would not approve their loan application, compared with 58.5 percent of Blacks and 53.1 percent of Hispanics. Only 10 percent of Whites suggested that the lack of access to credit had a negative impact on profitability, compared with 17.4 percent of Hispanic-owned businesses and 28.4 percent of Black-owned businesses. Firms owned by Blacks and Hispanics were also more likely to state that the cost of capital had a negative impact on their profitability (22.6 percent and 15.8 percent respectively), compared with businesses owned by Whites (10.6 percent). Finally, for firms that closed down in 2014, Blacks were twice as likely as Whites to state that financial reasons drove their firm closure. Hispanics were also more likely to cite financial reasons, compared with Whites, but the gap was much smaller.

The challenge of access to capital is clearly having a disproportionate effect on minority-owned businesses, especially those owned by Blacks and Hispanics. Given their much lower wealth levels,[21] compared to Whites and Asians, this is even more troubling. These newly available data illustrate that financing remains a critical challenge for minority entrepreneurs, even after nearly a decade following the financial crisis.

While minorities make up 40 percent of the U.S. population, their employer business ownership rates are half that. As the minority population continues to rise, it is more important than ever that these prospective business owners have the resources they need to launch and grow successful firms. Improving credit scores and wealth among minorities should be priorities for policymakers. As described earlier in this paper, even among the most creditworthy black

[21] As noted earlier in this paper, the 2011 Survey of Income and Program Participation by the U.S. Census Bureau indicates that half of all Hispanic households have less than $7,683 in wealth and half of all African-American households have less than $6,314. This compares to a median net worth of White non-Hispanic households of $110,500, and Asians have wealth levels close to those of non-Hispanic Whites at $89,339.

borrowers, there is still a fear of being turned down for funding.[22] The fact that many well-qualified minority borrowers do not apply for credit, even when they need it, because they think they'll be turned down, suggests that overcoming racial differences in financing is not just a matter of expanding the supply of credit available.

Understanding the drivers of these racial differences is going to require delving into perceptions on both sides of the financing table, as well as changes in financial planning and how credit histories can be built over time. However, it is clear that something needs to be fixed, for example, improving credit scores, raising wealth levels, and increasing banking relationships for Blacks and Hispanics. These improvements are not only needed for fairness, but for our economy to operate at full capacity. As the minority population in this country continues to grow, we need to prioritize the policy discussions around how to improve the financial health of minority entrepreneurs as well their access to financial capital.

[22] Using the Kaufman Firm Survey data, Fairlie, Robb, and Robinson (2016) found that even the most credit-worthy minority borrowers anticipated being denied credit, which caused many well qualified minority borrowers to not apply for credit, even when they felt they needed it.

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Appendix 1

Financing Questions Extracted for Report from 2014 Annual Survey of Entrepreneurs Survey Instrument

FUNDING FROM OWNER(S)

For 2014, what was the total amount of money that the owner(s) personally put into the business? *Your best estimate is fine. Please report in thousands.*

Include:

- Investments from personal savings
- Personal retirement accounts
- Home equity loans
- Personally borrowed funds

$________________ ,000

CAPITAL FUNDING

For the owners reported, what was the source(s) of capital used to start or initially acquire this business? If you did not report any owners skip to Amount of Capital Needed to Start or Initially Acquire Business. **Select all that apply.**

- ☐ Personal/family savings of owner(s)
- ☐ Personal/family assets other than savings of owner(s)
- ☐ Personal/family home equity loan
- ☐ Personal credit card(s) carrying balances
- ☐ Business credit card(s) carrying balances
- ☐ Government-guaranteed business loan from a bank or financial institutions, including SBA-guaranteed loans
- ☐ Business loan from a bank or financial institution
- ☐ Business loan from a federal, state, or local government
- ☐ Business loan/investment from family/friend(s)
- ☐ Investment by venture capitalist(s)
- ☐ Grants
- ☐ Other source(s) of capital
- ☐ Don't know
- ☐ None needed – Skip to Family, Friends, and Employees

For the owners you reported, what was the total amount of capital used to start or initially acquire this business? (Capital includes savings, other assets, and borrowed funds of owner(s).)

☐ Less than \$5,000	☐ \$100,000 - \$249,999
☐ \$5,000 - \$9,999	☐ \$250,000 - \$999,999
☐ \$10,000 - \$24,999	☐ \$1,000,000 - \$2,999,999
☐ \$25,000 - \$49,999	☐ \$3,000,000 or more
☐ \$50,000 - \$99,999	☐ Don't know

FUNDING FROM GOVERNMENT GRANTS

For 2014, what was the total amount of money this business received from government grants (such as the Small Business Innovation Research (SBIR) and/or Small Business Technology Transfer (STTR) programs)? *Your best estimate is fine. Please report in thousands.*

$________________ ,000

FUNDING FROM FAMILY, FRIENDS, AND EMPLOYEES

For 2014, what was the amount of money this business received from family, friends, and employees? *Your best estimate is fine. Please report in thousands.*

$____________________ ,000

FUNDING FROM BANKS OR OTHER FINANCIAL INSTITUTIONS

For 2014, what was the total amount of money this business borrowed from a bank or other financial institutions, including business loans, a business credit card carrying a balance, or a business line of credit? *Include all draws on a business line of credit, even if paid off during the year. Your best estimate is fine. Please report in thousands.*

$___________________ ,000

FUNDING FROM OUTSIDE INVESTORS

For 2014, what was the total amount of money this business received from angel investors, venture capitalists, or other businesses in return for a share of ownership in this business? *Your best estimate is fine. Please report in thousands.* (An "angel investor" is an affluent individual who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity.)

$___________________ ,000

NEW FUNDING RELATIONSHIPS

In 2014, did this business attempt to establish any new **funding relationships** (for example, loans, investments, or gifts) with any of the following sources? ***(Select one for each row)***

	No	Yes, received total amount of the funding requested	Yes, but did not receive the total amount requested
Other owner(s) (if applicable)	☐	☐	☐
Family, friends, or employees	☐	☐	☐
Banks, credit unions, or other financial institutions	☐	☐	☐
Home equity loans in name of business owners	☐	☐	☐
Credit cards	☐	☐	☐
Trade credit (for example, buy now, pay later)	☐	☐	☐
Angel Investors	☐	☐	☐
Venture capitalists	☐	☐	☐
Other investor businesses	☐	☐	☐
Crowdfunding platform (for example, Prosper, Kickstarter, etc.)	☐	☐	☐
Grants (for example, Federal government's Small Business Technology Transfer Program (STTR) or Small Business Innovation Research Program (SBIR)	☐	☐	☐
Other (Specify)	☐	☐	☐

AVOIDANCE OF ADDITIONAL FINANCING

At any time during 2014, did this business need additional financing and **the owner(s) chose not to apply?**

- ☐ Yes
- ☐ No - Skip to Profitability

AVOIDANCE OF ADDITIONAL FINANCING CONTINUED

Why did this business choose not to apply for additional financing? (Select all that apply)

- ☐ Did not think business would be approved by lender
- ☐ Did not want to accrue debt
- ☐ Decided the financing costs would be too high
- ☐ Preferred to reinvest the business profits instead
- ☐ Felt the loan search/application process would be too timing consuming
- ☐ Decided the additional financing was no longer needed
- ☐ Decided to wait until funding conditions improved
- ☐ Decided to wait until company hit milestones to be in stronger position to raise funds
- ☐ Other (Specify)

PROFITABILITY

For 2014, did this business have profits, losses, or break even? **(Select one)**

- ☐ Profits
- ☐ Losses
- ☐ Break even

NEGATIVE IMPACT ON PROFITABILITY

For 2014, did each of the following negatively impact the profitability of this business? **(Select one in each row)**

	Yes	No
Access to financial capital	☐	☐
Cost of financial capital	☐	☐
Finding qualified labor	☐	☐
Taxes	☐	☐
Slow business or lost sales	☐	☐
Customers or clients not making payments or paying late	☐	☐
The unpredictability of business conditions	☐	☐
Changes or updates in technology	☐	☐
Other (Specify)	☐	☐

CURRENTLY OPERATING

Is this business currently operating?

- ☐ Yes – Skip to Remarks
- ☐ No

CEASE OPERATION

Did the operations cease for any of the following reasons? **Select all that apply.**

- ☐ Owner's military deployment
- ☐ Owner's illness or injury
- ☐ Owner(s) retired
- ☐ Owner(s) deceased
- ☐ Operated for a specific or one-time event
- ☐ Inadequate cash flow or low sales
- ☐ Lack of business loans/credit
- ☐ Lack of personal loans/credit
- ☐ Started another business
- ☐ Sold this business
- ☐ Other

Appendix 2

SE1400CSCB07: Statistics for U.S. Employer Firms by Sources of Capital Used to Start or Acquire the Business by Sector, Gender, Ethnicity, Race, Veteran Status, and Years in Business for the U.S., States, and Top 50 MSAs: 2014

SE1400CSCB08: Statistics for U.S. Employer Firms by Total Amount of Capital Used to Start or Acquire the Business by Sector, Gender, Ethnicity, Race, Veteran Status, and Years in Business for the U.S., States, and Top 50 MSAs: 2014

SE1400CSCB09: Statistics for U.S. Employer Firms by Funding Sources and Total Amount of Funding by Sector, Gender, Ethnicity, Race, Veteran Status, and Years in Business for the U.S., States, and Top 50 MSAs: 2014

SE1400CSCB010: Statistics for U.S. Employer Firms by New Funding Relationships Attempted by Sector, Gender, Ethnicity, Race, Veteran Status, and Years in Business for the U.S., States, and Top 50 MSAs: 2014

SE1400CSCB011: Statistics for U.S. Employer Firms by Reasons for Avoiding Additional Financing by Sector, Gender, Ethnicity, Race, Veteran Status, and Years in Business for the U.S., States, and Top 50 MSAs: 2014

SE1400CSCB013: Statistics for U.S. Employer Firms by Negative Impacts on Profitability by Sector, Gender, Ethnicity, Race, Veteran Status, and Years in Business for the U.S., States, and Top 50 MSAs: 2014

SE1400CSCB027: Statistics for U.S. Employer Firms by Reasons that a Business Ceased Operations by Sector, Gender, Ethnicity, Race, Veteran Status, and Years in Business for the U.S., States, and Top 50 MSAs: 2014

Source of Tables:
http://www.census.gov/data/tables/2014/econ/ase/2014-ase-characteristics-of-businesses.html

The full survey instrument can be found here:
https://www2.census.gov/econ2014/SE/sector00/ase_2014_preview.pdf