



SBA Loan Program Funding to AAPI Communities

Findings from a Preliminary Data Analysis

Yipeng Su

May 2023

Asian American and Pacific Islander (AAPI)ⁱ-owned small businesses are among the fastest-growing businesses in the US. According to the most recent [Survey of Business Owners](#), the number of US businesses owned by Asian-Americans rose 23.8 percent, from 1.5 million to 1.9 million between 2007 and 2012. Of the AAPI-owned small businesses, Chinese-owned firms make up the largest share at 27.6 percent, followed by Asian Indian- and Vietnamese-owned businesses at 19.7 percent and 16.2 percent, respectively, with geographic concentrations in California, New York, and Texas, where AAPI populations cluster.

Small businesses are a crucial part of the US economy and pave the way to economic mobility not only by building assets but also by promoting community values and identity. According to the US Small Business Administration (SBA), more than 31 million small businesses (defined as firms that have fewer than 500 employees) currently account for 47 percent of all US employees (US SBA 2020). However, similar to many small businesses, AAPI-owned businesses face challenges in accessing quality and affordable credit due to the risky nature of small businesses, a lack of creditworthiness, and the high cost of underwriting small business loans. The COVID-19 pandemic also posed further, ongoing challenges for small businesses: the latest [Census Small Business Pulse Survey](#) data indicate that nearly 40 percent of small businesses are being affected by supply chain and economic issues. Notably, businesses in education, food, and accommodation sectors—where more than one in five businesses are AAPI owned¹—experienced even more negative impacts. Beyond the economic impact, the prevalence of anti-Asian racism rhetoric surrounding COVID-19 continues to hurt AAPI small businesses. For

ⁱ The US Census classifies Asian as “A person having origins in any of the original peoples of the Far East, Southeast Asia, or the Indian subcontinent including, for example, Cambodia, China, India, Japan, Korea, Malaysia, Pakistan, the Philippine Islands, Thailand, and Vietnam.” And Native Hawaiian or Other Pacific Islander as “A person having origins in any of the original peoples of Hawaii, Guam, Samoa, or other Pacific Islands.” See more at <https://www.census.gov/topics/population/race/about.html>

example, a survey of Asian American businesses found that over two in five respondents reported that anti-Asian racism had affected their businesses since the start of the pandemic (American & Pacific Islander Policy Initiative 2021).

Navigating federal, state, and local relief programs for small businesses has been a major challenge for AAPI-owned small businesses. A survey conducted by Small Business Majority in 2021 found that the number one challenge cited by AAPI survey participants was the difficulty understanding federal, state, and local relief programs for small businesses.² In addition, a survey of AAPI-owned small businesses conducted by the National Coalition for Asian Pacific American Community Development in 2019 found that 47 percent of respondents received loans through friends and family and 33 percent of respondents relied solely on their own funds (National CAPACD 2019). The survey found that AAPI-owned small businesses were more likely than those owned by any other racial category to use personal resources for financing the costs of their start-ups. This brief seeks to better understand the flow of the SBA's key federal loan programs to AAPI communities over the past decade and to explore pathways for future research to inform policies that increase investment in AAPI-owned small businesses.

SBA Loan Programs

The SBA and its major loan programs make capital available to small businesses that might otherwise have difficulty accessing credit, and research has shown that businesses' sales and finances improve in the years immediately following their receipt of SBA financing (Rossman and Theodos 2008). SBA and other key federal loan programs are thus particularly critical for small businesses that may be less likely to access private sector lending at affordable rates due to lack of tracking business and financial records, such as proof of sufficient cash flow (Theodos et al. 2022).

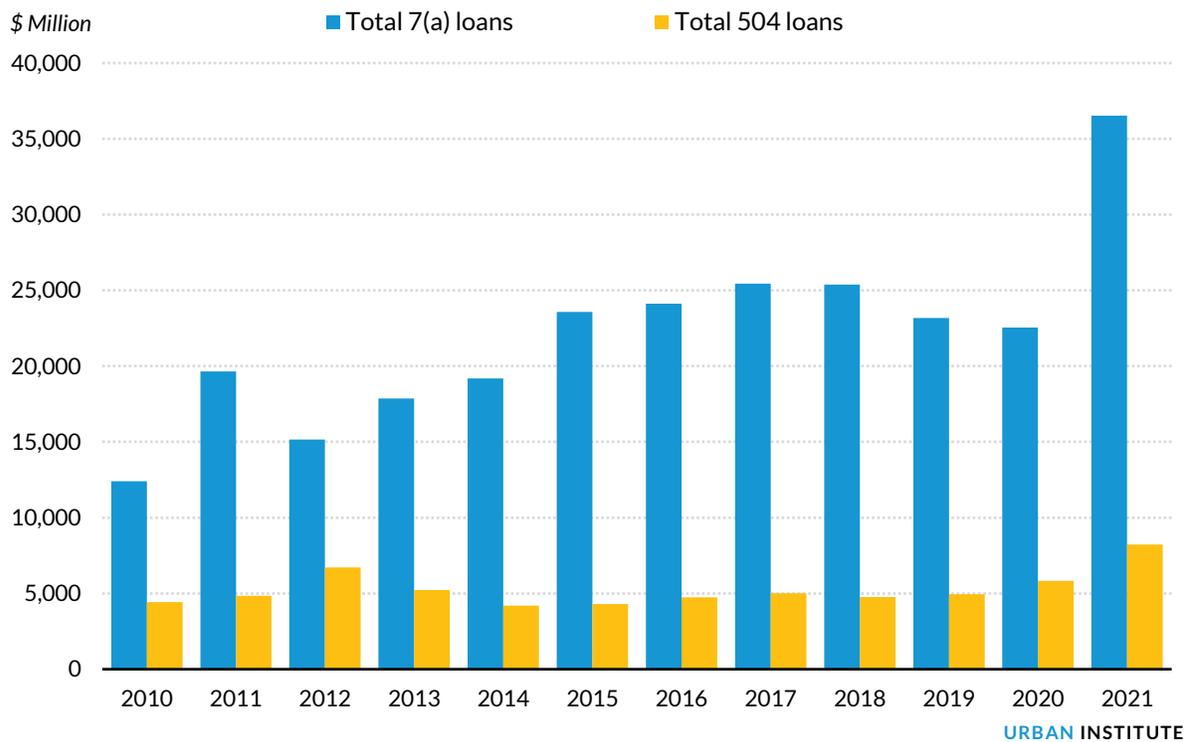
TABLE 1
SBA 7(a) and 504 Loan Programs Overview

Program	Use of proceeds	Maximum amount	Loan volume, 2021
7(a) Loan Guaranty Program	Fixed assets, working capital, financing of start-ups, or purchasing an existing business; some debt payment allowed, but lender's loan exposure may not be reduced with the Express products. Lines of credit are offered with the Express programs.	\$5 million	\$36.8 billion
504/CDC Loan Guaranty Program	Fixed assets only	\$5 million for single projects and \$5.5 million for manufacturers and specified energy-related projects; minimum is \$25,000. There is no limit on the project size.	\$8.2 billion

Source: Author's summary of Small Business Administration: A Primer on Programs and Funding, CRS 2022.

The major SBA loan programs include the 7(a) loan, real estate and equipment loans (504), microloans, and disaster recovery loans. 7(a) loans can be used to finance most business purposes, including both working capital and fixed assets, while 504 loans can be used to finance only fixed assets (table 1). Figure 1 shows the total approval amount of 7(a) and 504 loans for years 2010–21, with a significant increase during the COVID-19 pandemic when the Coronavirus Aid, Relief, and Economic Security (CARES) Act temporarily expanded the SBA’s major loan programs.

FIGURE 1
Total Approval Amounts of SBA 7(a) and 504 Loan Programs by Year
 2010–21



Source: Urban Institute analysis of the SBA 7(a) & 504 data and 2019 American Community Survey 5-Year Estimates.

Note: Volume for the 504 and 7(a) loan programs increased in 2021 significantly due to supplemental appropriations from the CARES Act.

Promoting equity in the distribution of these loans is critical for addressing huge disparities in business ownership and access to capital resulting from decades of inequitable policies and practices. For example, in majority-Black or -Hispanic communities, most small businesses had fewer than 14 cash buffer days, compared with 21 cash buffer days in majority-white neighborhoods (JP Morgan Chase Institute 2019). Although AAPI communities and small businesses are comparable to Black and Hispanic communities in their lack of access to capital and in their overall financial health, they face unique challenges, such as language barriers that limit access to information about federal, state, and local loan programs and industry-specific economic hardships during the COVID-19 pandemic where AAPI small

businesses take a larger share. In addition, as many advocacy organizations and researchers pointed out, aggregated AAPI data can mask inequities in access to capital for particular AAPI populations and paint an inaccurate picture of the state of AAPI small businesses.

Key SBA Loan Programs Delivered to AAPI Geographies

Defining AAPI Communities

Accounting for about 6.2 percent of the total US population according to the 2020 Census, AAPI populations are the fastest growing compared with every other race and ethnicity group. Between 2000 and 2019, the population grew from 10.5 million to 18.9 million, or from 3.7 to 5.8 percent of the total US population, and as high as 57 percent in Hawaii followed by 17 percent in California.³ They are also diverse in terms of immigration history, language, culture, and economic well-being. Their relatively small percentage of the overall population and rapid growth have created challenges for analyzing business loans issued to AAPI-owned businesses and communities, especially when evidence on economic and geographic disparities within the communities is well documented.⁴

Ideally, loan-level demographics data would be the most accurate way of identifying AAPI small business recipients, but lenders and borrowers are not required to submit the information to SBA. For this brief, we define AAPI communities as the 90th percentile of census tracts with the highest share of AAPI populations. These communities range from accounting for 13 percent to almost 100 percent of the AAPI population per tract and total around 25,000 census tracts in all states, with California, followed by Texas and New York, containing the highest number of tracts.

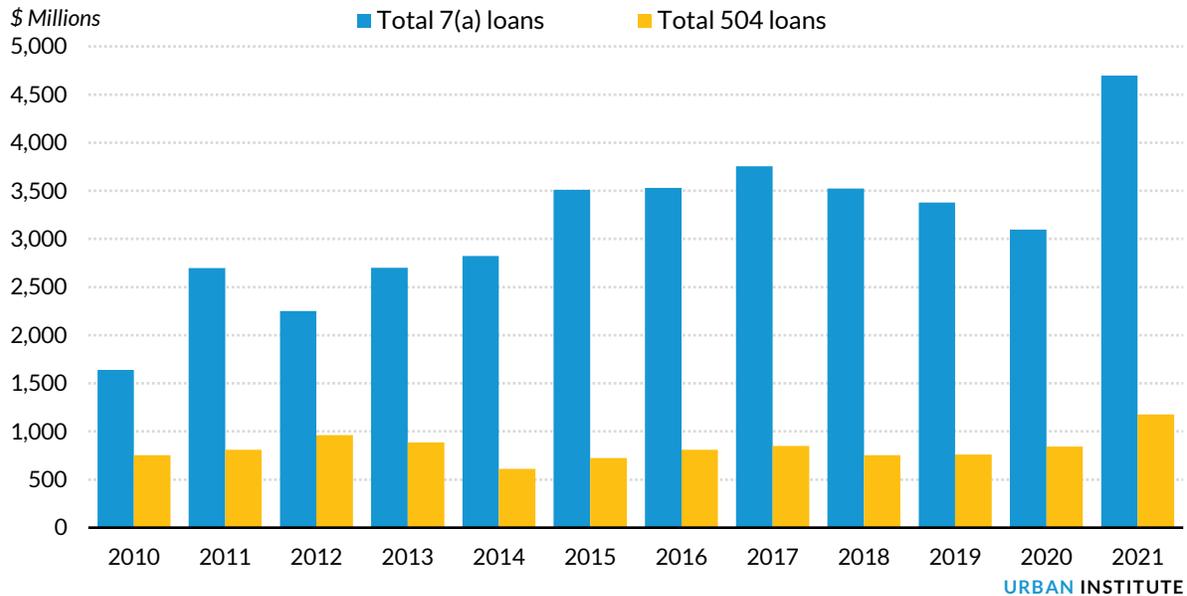
Trends in the Flow of 504 and 7(a) Loan Programs to AAPI Geographies

Figure 2 provides an overview of the gross approval amounts of SBA 7(a) and 504 loans issued to geographies with a higher share of AAPI populations between 2010 and 2021. The total amounts vary by year, including a jump in 2021 to about \$4,700 million for the 7(a) program and \$1,180 million for the 504 program. As illustrated in figure 3, 504 loan amounts in AAPI geographies make up a larger share of the total approved loans compared with 7(a) loan amounts. The share of 504 loans in AAPI communities decreased from 17 percent in 2010 to 14 percent in 2021. In contrast, the share of 7(a) loans in AAPI geographies remained relatively stable, starting at 13 percent in 2010, increasing slightly over the years, and decreasing back to 13 percent in 2021.

The median loan amount for a 7(a) loan is \$350,000 and supports a median number of six jobs, compared with a median amount of \$774,000 for a 504 loan that supports a median number of five jobs, as shown in table 2. Median 7(a) loan amounts are similar to the national median (\$327,000), whereas median 504 loan amounts in AAPI geographies are significantly higher than the national median (\$548,500) and support one more job than the national median.

FIGURE 2

Gross Approval Amounts Issued in AAPI Geographies for SBA 7(a) and 504 Loan Programs by Year 2010-21

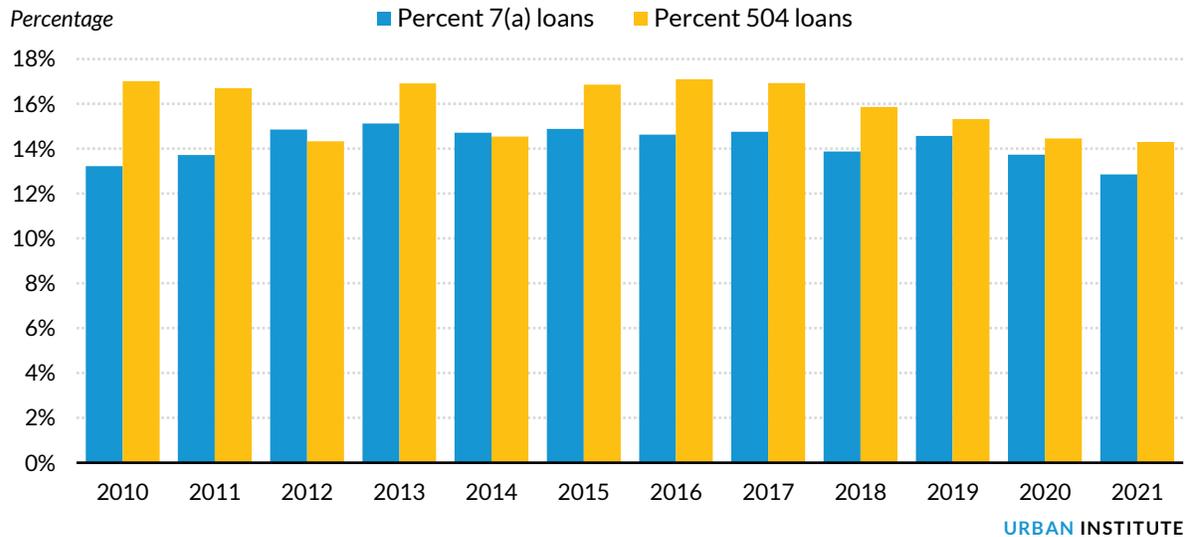


Source: Urban Institute analysis of the SBA 7(a) & 504 data and 2019 American Community Survey.

Note: Volume for the 504 and 7(a) loan programs increased in 2021 significantly due to supplemental appropriations from the CARES Act

FIGURE 3

Gross Approval Amounts Issued in AAPI Geographies as a Percentage of Total Lending for SBA 7(a) and 504 Loan Programs by Year 2010-21



Source: Urban Institute analysis of the SBA 7(a) & 504 data and 2019 American Community Survey.

TABLE 2

Characteristics of SBA 7(a) and 504 Loan Programs Issued in AAPI Geographies in 2010–21

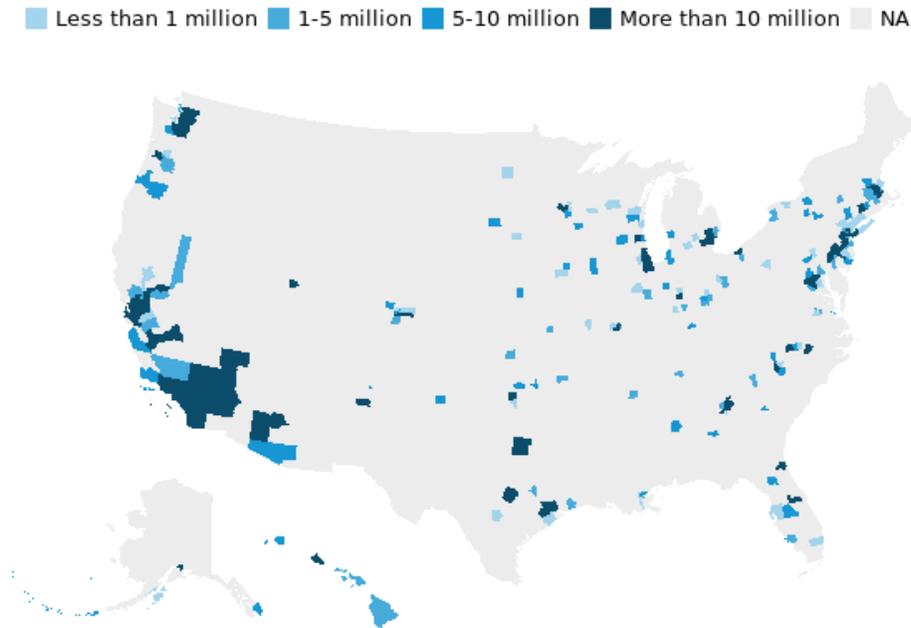
	Median dollar amount	Median # jobs supported
7(a) Total	\$327,000	6
504 Total	\$548,500	4
7(a) in AAPI Geographies	\$350,000	6
504 in AAPI Geographies	\$774,000	5

Source: Urban Institute analysis of the SBA 7(a) & 504 data and 2019 American Community Survey.

As illustrated in figure 4, geographies with the highest share of AAPI populations include both traditionally known AAPI immigrant hubs like New York and California, as well as more remote tracts spread across the country with smaller total populations but with a higher share of AAPI populations. For ease of identifying locations and communities, we further aggregated the loan data to counties with higher shares of AAPI populations. In 2021, the combined total amount of 7(a) and 504 loans to such counties varies: at the low end, Calumet County, Wisconsin had \$5,000 in combined lending and, at the high end, Los Angeles County, California registered more than \$760 million.

FIGURE 4

SBA 7(a) and 504 Loan Program Gross Approval Dollar Amounts Issued in AAPI Communities in 2021



URBAN INSTITUTE

Source: Urban Institute analysis of the SBA 7(a) & 504 data and 2019 American Community Survey.

Top Industries Receiving SBA 7(a) and 504 Loan Programs in AAPI Communities

To further understand the types of small businesses receiving SBA 7(a) and 504 loans, we aggregated the loan data by North American Industry Classification System (NAICS) categories. In 2021, loans supported a variety of business types, including restaurants, accommodations, offices, and retail and wholesale services, similar to the types of businesses that received loans nationally overall. Table 3 provides a detailed breakdown of these business categories by program.

TABLE 3

Top Industries Receiving SBA 7(a) and 504 Loan Programs in AAPI Communities in 2021

7(a)	Dollar amount (millions)	504	\$ Amount (in millions)
Hotels (except casino hotels) and motels	182	Offices of physicians (except mental health specialists)	56
Full-service restaurants	180	Hotels (except casino hotels) and motels	47
Offices of dentists	177	Offices of dentists	40
Child day care services	154	Offices of lawyers	35
Gasoline stations with convenience stores	134	Child day care services	27
Limited-service restaurants	118	Supermarkets and other grocery (except convenience) stores	23
Car washes	103	Full-service restaurants	21
Offices of physicians (except mental health specialists)	89	Offices of certified public accountants	21
Insurance agencies and brokerages	83	Other miscellaneous durable goods merchant wholesalers	19
Supermarkets and other grocery (except convenience) stores	74	Car washes	17

Source: Urban Institute analysis of the SBA 7(a) & 504 data and 2019 American Community Survey.

Implications and Recommendations

This preliminary data analysis provides an overview of SBA 504 and 7(a) program loans issued to geographies with relatively higher shares of AAPI populations. The loan characteristics and total amounts are comparable to national means and sometimes even higher, and the geographies of funding show large concentrations in more urban areas with higher levels of economic activities. However, we need more disaggregated data to provide a complete picture of SBA loan usage in AAPI communities.

The lack of more detailed demographic information in the SBA data limits this analysis in several ways. First, using AAPI-concentrated geographies as a proxy for the likelihood of an SBA loan funding an AAPI business is less than ideal. It is very possible that a loan issued to an AAPI-concentrated

geography goes to a non AAPI-owned small business, which skews our numbers on the higher end. Second, as noted, AAPI communities include diverse ethnic groups from many different cultural backgrounds and immigration histories, and this translates to different levels of economic and social resources (Paik et al. 2017). Aggregating AAPI populations at smaller geographies will likely mask the economic disparities within these communities⁵ in terms of each group's ability to access SBA funding. Third, this analysis highlights only the SBA loans issued in the top geographies with higher shares of AAPI populations and therefore does not include SBA loans issued to AAPI-owned small businesses outside of those geographies such as farming in more rural places.

Nonetheless, this brief touches on several important questions that are crucial to understanding the current state of major SBA loan funding to AAPI communities. Based on aggregate preliminary data analysis, AAPI-owned small businesses seem to have accessed a fair share of SBA funding but, like many other small businesses trying to stay afloat in the current economy, they will benefit from more targeted funding and assistance that is grounded in the nuance of this culturally diverse population and is specific to sector, history, and market.

There are several opportunities to conduct further research to clarify how AAPI-owned businesses can gain greater access to key federal small business assistance programs, especially in communities that face significant disparities:

- Complement aggregate data analysis with case studies of subgroups within AAPI-owned small business communities to understand key business needs and challenges in accessing small-business loans, as well as opportunities for policymakers and community organizations to promote the growth and sustainability of AAPI entrepreneurship.
- Explore other SBA programs outside of the 7(a) and 504 loan programs, such as small-business grants and technical assistance by Small Business Development Centers, as well as how they have been accessed by AAPI-owned small businesses, to provide a fuller picture of AAPI-owned business needs and gaps in assistance.
- Further explore the impact of different types of technical assistance programs, such as one-on-one coaching, segment curriculum-based trainings, awareness and outreach campaigns, and business incubators with an industry or geographic lens to identify opportunities for philanthropic investments.⁶
- Conduct research on the implementation and outcomes of other federal level financing programs, such as the State Small Business Credit Initiative (SSBCI) that was reauthorized as part of the American Rescue Plan Act in 2021, to identify best practices in distributing federal dollars to state and local governments for increasing access to capital for AAPI-owned small businesses.

Notes

- ¹ Mary Frauenfelder, “Asian-owned businesses nearing two million,” *Random Samplings* (blog), United States Census Bureau, July 27, 2016, <https://www.census.gov/newsroom/blogs/random-samplings/2016/07/asian-owned-businesses-nearing-two-million.html>.
- ² Small Business Majority, “Scientific opinion poll: Asian American/Pacific Islander small business owners continue to struggle during COVID-19 pandemic,” accessed January 4, 2023, <https://smallbusinessmajority.org/sites/default/files/research-reports/COVID-19-national-small-business-poll-AAPI-entrepreneurs.pdf>.
- ³ Abby Budiman and Neil G. Ruiz, “Asian Americans are the fastest-growing racial or ethnic group in the U.S.,” Pew Research Center, April 9, 2021, <https://www.pewresearch.org/fact-tank/2021/04/09/asian-americans-are-the-fastest-growing-racial-or-ethnic-group-in-the-u-s/>.
- ⁴ Asha Banerjee, “Understanding economic disparities within the AAPI community,” *Working Economics* (blog), Economic Policy Institute, June 7, 2022, <https://www.epi.org/blog/understanding-economic-disparities-within-the-aapi-community/>.
- ⁵ Charmain Runes, “What’s behind the wealth gap in Asian American and Pacific Islander communities?” *Urban Wire* (blog), Urban Institute, May 10, 2018, <https://www.urban.org/urban-wire/whats-behind-wealth-gap-asian-american-and-pacific-islander-communities>.
- ⁶ More details can be found in testimony by Theodos (2021).

References

- Asian American & Pacific Islander Policy Initiative. 2021. *Asian American Businesses: The Impacts of Anti-Asian Racism*. Los Angeles: UCLA Center for Neighborhood Knowledge.
- Farrell, Diana, Christopher Wheat, and Carlos Grandet. 2019. *Place Matters: Small Business Financial Health in Urban Communities*. Washington, DC: JP Morgan Chase Institute.
- Federal Reserve Banks. 2021. *Small Business Credit Survey: 2021 Report on Employer Firms*. Washington, DC: Federal Reserve Banks.
- National CAPACD (Coalition for Asian Pacific and American Community Development). 2019. *Small Business, Big Dreams: A Survey of Economic Development Organization and Their Small Business Clients in Low-Income Asian American and Pacific Islander Communities*. Washington, DC: National CAPACD.
- Paik, Susan J., Zaynah Rahman, Stacy M. Kula, Erika Saito, and Matthew A. Witenstein. 2017. “Diverse Asian American Families and Communities: Culture, Structure, and Education (Part 1: Why they differ).” *School Community Journal* 27 (2): 35–66.
- Rossman, Shelli B., and Brett Theodos. 2008. *Key Findings from the Evaluation of the Small Business Administration’s Loan and Investment Programs*. Washington, DC: Urban Institute.
- Theodos, Brett. 2021. “Big Ideas for Small Businesses: Fostering American Entrepreneurship through Starting, Sustaining, and Growing Small Businesses.” Statement before the Select Committee on Economic Disparity and Fairness in Growth, US House of Representatives, March 16. Washington, DC: Urban Institute.
- Theodos, Brett, Jorge González-Hermoso, and Ananya Hariharan. 2022. “Assessing the Small-Business Landscape in Metropolitan Kansas City.” Washington, DC: Urban Institute.
- US SBA (United States Small Business Administration). 2020. *2020 Small Business Profile*. Washington, DC: US SBA.

About the Authors

Yipeng Su is a research associate in the Metropolitan Housing and Communities Policy Center. Her research interests include housing, economic development, and the intersection between urban planning and technology. She holds a master's degree in public administration from New York University's Wagner Graduate School of Public Service.

Acknowledgments

This brief was funded by The Asian American Foundation. We are grateful to them and to all our funders, who make it possible for Urban to advance its mission.

The views expressed are those of the author and should not be attributed to the Urban Institute, its trustees, or its funders. Funders do not determine research findings or the insights and recommendations of Urban experts. Further information on the Urban Institute's funding principles is available at urban.org/fundingprinciples.



500 L'Enfant Plaza SW
Washington, DC 20024
www.urban.org

ABOUT THE URBAN INSTITUTE

The Urban Institute is a nonprofit research organization that provides data and evidence to help advance upward mobility and equity. We are a trusted source for changemakers who seek to strengthen decisionmaking, create inclusive economic growth, and improve the well-being of families and communities. For more than 50 years, Urban has delivered facts that inspire solutions—and this remains our charge today.

Copyright © May 2023. Urban Institute. Permission is granted for reproduction of this file, with attribution to the Urban Institute.