



RESEARCH REPORT

Credit Trajectories of Business Owners Who Receive Loans from Community Development Financial Institutions (CDFIs)

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Credit Trajectories of Business Owners Who Receive Loans from Community Development Financial Institutions (CDFIs)

Small business ownership is widely believed to be a pathway to wealth-building, but there is limited research on the long-term financial implications for entrepreneurs. On average, small business owners have about 30 percent of their personal wealth in the value of their business.¹ But small businesses ownership is challenging: about half of start-ups do not survive beyond five years.² The body of research to help us understand these dynamics is surprisingly thin. Relatively few studies have explored the financial benefits of business ownership over time. Collectively, the public, private, and philanthropic sectors make investments of significant size and number in efforts to support small businesses (Theodos et al. 2024), yet investors, policymakers, philanthropists, and researchers lack a clear understanding of firm trajectories, capital needs, and the effectiveness of business development and capital access supports.

To understand long-term business and personal credit outcomes for small business owners, we partnered with five community development financial institutions (CDFIs) that are small business and microloan lenders to assemble a longitudinal dataset tracking 22,433 businesses before and after they received a loan. This dataset represents the entirety of business loans made by the five CDFIs during the study period. We looked at credit scores, borrowing, and delinquencies for both the businesses and owners, using consumer and business credit data combined with data obtained from the CDFIs. The businesses studied received a CDFI loan between 2012 and 2018, and we tracked them through 2022. The three microlenders are Accion Opportunity Fund, DreamSpring, and LiftFund. The small business lenders are Community Reinvestment Fund (CRF), which provides US Small Business Administration (SBA) 7(a) loans, and CDC Small Business Finance (now part of Momentus), which provides SBA 504 and 7(a) loans.

Key findings from our analysis include the following:

- For microloan and small business borrowers, consumer credit scores of the business owners improve in the years after origination, particularly for borrowers with the lowest initial scores.

- For microloan and small business borrowers, consumer debt levels rise after receiving a CDFI loan (which may suggest their business credit needs are not fully met by the CDFI loan).
- The share of microloan and small business borrowers with a business credit score increases significantly in the years after origination.
- The share of microloan and small business borrowers with a 90-day delinquency on any business debt increases after receiving a CDFI loan. This may be related to the fact that overall business borrowings also increase.

Background

Small businesses serve as important assets for the fabric of their local communities, responding to local market needs and creating opportunities for social and cultural interaction and civic engagement (Blanchard and Matthews 2006; Schnake-Mahl et al. 2018). Financing matters for small businesses because entrepreneurs use credit to access working capital and make investments in equipment and real estate. Furthermore, the availability of small business loans has been positively correlated with small business starts and growth (Aktug, Ikizler, and Hulagu 2020).

Despite its importance, access to credit is a long-standing challenge for small businesses in the US. Small business lending collapsed during the Great Recession, and by 2017 had only recovered to half of its 2004 levels (Schneider, Stocks, and Dietrich 2020). By 2019, just before the COVID-19 pandemic, more than half of small business owners reported unmet needs for credit (Battisto et al. 2019). While the pandemic initially reduced demand for credit among small businesses, in 2021 only 31 percent of small businesses seeking to borrow were able to receive all the financing they sought (Wiersch et al. 2022). And while the economy post-COVID-19 has proven fairly resilient, an increasing number of lenders report that they are continuing to *tighten* standards for small business loans.³

The challenges in accessing capital are not equal across all types of businesses or demographics of owners. Start-up firms are widely described by lenders as especially difficult to finance (Theodos et al. 2024; Theodos, González-Hermoso, and Hariharan 2021). Firms with limited collateral, firms with highly variable revenue, and firms in riskier sectors, such as restaurants, can all struggle to access capital. Lenders often examine owners' personal finances as part of their underwriting process, and often require a personal guarantee in addition to the businesses' equity contributions toward a loan. As such, personal wealth and credit standing have strong links to small business capital access (Berger, Cowan, and Frame 2009). Financing from family or friends is an important source of capital for many businesses, meaning those who lack a wealthy network are at a disadvantage. Not surprisingly,

demographic groups with lower incomes and net worths tend to have more trouble accessing all of the credit they seek (Meyer and Schweitzer 2022, Robb, de Zeeuw, and Barkley 2019).⁴ The share of credit applicants who report they were fully approved is 58 percent for White business owners, 38 percent for Hispanic business owners, 33 percent for Asian business owners, and 20 percent for Black business owners (Corcoran et al. 2023). Outright discrimination by loan officers appears to be at least one factor contributing to these disparities, as documented by “mystery shopper” studies in which equally qualified Black and White entrepreneurs ask for identical loans (Bone et al. 2019). Women-owned businesses are also more likely to report challenges in accessing credit.⁵

There have been a few studies on the personal credit of small business owners and how it intersects with business credit. Fonseca and Wang (2022) found that when the supply of small business credit withered during and after the 2007–08 financial crisis, owners replaced on average 68 percent of the loss with personal credit. Their findings suggest that while entrepreneurs of all levels intermingle their finances, those with strong personal credit are much more capable of weathering business shocks. Another study found that during the COVID-19 pandemic, small business owners turned in greater numbers to mortgage forbearance and home equity lines of credit (HELOC).⁶

CDFIs and other mission-driven small business lenders exist to serve the capital needs of small businesses that are failing to access traditional credit for a variety of reasons. For example, CDFIs may lend to businesses that mainstream lenders might refuse to lend to because the business owner’s equity contribution is too low, the loan size is too small, the business is too new, or the business owner has yet to establish a strong credit history. CDFIs typically complement their lending by providing advisory services to owners, helping them prepare for and succeed with the loan.

Two important types of loans that CDFIs provide are microloans (typically defined as less than \$50,000) and SBA-guaranteed loans or other small business loans, which are often for between \$100,000 and \$1 million, but sometimes larger. Typically, CDFIs will specialize in one of these, but occasionally, a subset will provide both. While still a very small sector within the overall small business lending market, CDFIs have established a strong track record with their microlending and larger small business lending activity. As of 2020, CDFIs with reporting obligations to the US Department of the Treasury held a total of \$24.8 billion of small business and microfinance loans in their portfolios. Across CDFIs reporting engagement in small business and microfinance lending, weighted average annual charge-offs from 2016–20 were 0.49 percent and 4.25 percent, respectively.⁷ However, while CDFIs track borrower performance over the life of their loans, there has been limited research into long-term credit outcomes for CDFI small business borrowers.

Study Design, Data, and Methodology

We compiled data on 22,433 business borrowers who received a loan made by one of five CDFIs between 2012 and 2018, along with credit data between 2012 and 2022. The data includes every CDFI business borrower from 2012 to 2018 that the credit-data provider could match using identifiers provided by the CDFIs. We purchased the credit data from a large credit-data firm to which the CDFIs reported data on their customers. We gathered borrower-level data from each CDFI including loan, business, and owner attributes. We then joined these data with individual-level consumer credit data, which, in the case of firms with multiple owners, we combined to produce a business-level panel dataset.⁸ Finally, the credit-data firm provided census tract data for the tracts where businesses were located. We adjusted all dollar-unit data, such as loan amount or credit balance, for inflation to 2022 dollars using the CPI-U.

Examining both consumer and business credit data is important, when possible, to get a more thorough understanding of businesses and their owners. As discussed above in general, and as evident in our sample, many business owners, particularly start-ups, rely on personal credit to finance their operations. Looking at business credit data alone is not sufficient, because start-ups and very small firms in particular are less likely to be visible in the business credit data.

Credit visibility differs by borrower and credit type. In the year before they received a loan, 88 percent of microloan borrowers and 95 percent of small business borrowers were visible in the consumer credit data, while 27 percent and 41 percent were visible in the business credit data, respectively. Over time credit visibility improves, which we discuss later.

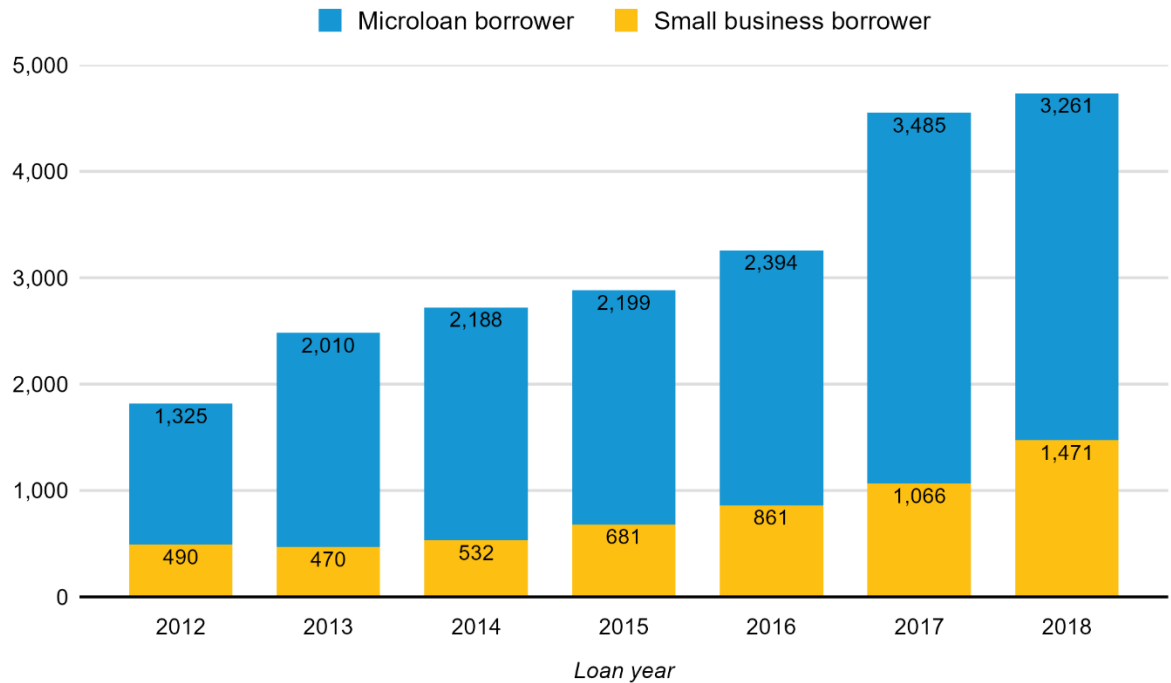
In our analysis we commonly index the credit attributes of businesses to the year of the loan—for example, looking three years before and after the loan regardless of which year that loan was made. We do this rather than report data for a specific calendar year, say, loans made in 2014. This allows us to simultaneously study all businesses in the sample over time relative to when they received a loan and observe any patterns that might emerge after businesses receive capital from a CDFI. (For robustness, we test whether results differ based on loan origination year, but we find that they generally do not.)

Description of Data

The number of both microloans and small business loans made by the CDFIs increases year over year during our study (figure 1). We define a microloan as a loan up to \$50,000 and a small business loan as a loan over \$50,000. While there is no definitive way to dichotomize CDFI borrowers, this method is

simple and reflects a common industry definition of loan size. We conduct separate analyses on microloan borrowers and small business loan borrowers because this is a traditional distinction in business lending and because there are significant compositional differences between the two groups. As we will later describe in detail, compared with small business borrowers, microloan borrowers have lower personal credit scores, are less likely to own a home, and are less likely to have business credit profiles before borrowing from a CDFI, among other distinguishing features. Two lenders predominantly make small business loans, and three make microloans, though there is some crossover.

FIGURE 1
Number of Businesses Receiving Loans Per Year by Loan Type



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Source: Data from study CDFIs.

The CDFI-provided data include information on loans, firms, and their owners. We have access to loan amount, interest rate, term, and origination date. For firms, we know the number of years in operation and number of employees. And for their owners, we know self-reported data on race, ethnicity, and gender. These data had slight differences in reporting, which we standardized across the five CDFI data providers.

The credit dataset includes 11 years of snapshot data on consumer and business tradelines. These are measurements of the type and number of tradelines and the overall volume of credit that

businesses and consumers use, typically in the past 3, 6, or 12 months, at a point in time. The data also includes information on loan delinquencies, collections, and indicators of business credit health. To minimize any variation due to seasonality in business operations, we purchased data as of May for each year. On the consumer side, we observe summarized trades for a range of credit types, including bank and retail credit cards, mortgages, home equity lines of credit, installment loans, auto loans, and student loans. On the business side, we observe the number and volume of business credit accounts for different time periods and ages—that is, how long the business has used a particular account.

We tie each business record to demographic and economic indicators for its business location. We use five-year American Community Survey data and Longitudinal Employer-Household Dynamics Origin-Destination Employment Statistics from the US Census Bureau at the tract level. To maintain business anonymity, we devised a process to tie tract-level data to businesses while removing information that could be used to uniquely identify a tract.

Findings for Microloan Borrowers

While microfinance as an international development tool has gained far more attention, business microfinance in the US has a rich history as well (Widyaningrum, Bhat, and Lee 2019). Microloans are subsidized via several federal programs including the SBA Microloan program, the CDFI Fund's Financial Assistance Awards, the US Department of Agriculture Farm Service Agency Microloan Program, the US Department of Agriculture Rural Microentrepreneur Assistance Program, and the US Economic Development Administration Revolving Loan Fund (within the US Department of Commerce; Theodos et al. 2024). CDFIs and other mission lenders are the implementation partners of these federal support programs. While some CDFI microlenders rely principally or solely on federal funding, the three we studied do not. They leverage bank debt (especially from Community Reinvestment Act-regulated institutions) and debt from impact investors, philanthropy, and state and local government funding and credit enhancements. They all generate significant income from interest and fees, which reduces their need for operating subsidy, but does not fully cover their costs. Many provide developmental services like business advising, training, or coaching. The CDFIs we studied are three of the most prolific microlending CDFIs in the US.

Firm and Borrower Preloan Characteristics

Tables 1 and 2 provide descriptive statistics about owners and businesses before they receive a loan. While there are a variety of firm and borrower types, microloan borrowers from the study CDFIs tend to be new or young businesses that have solo owners, have no or few employees, and are predominantly Hispanic/Latino-led. The microloans and borrowers have the following attributes:

- **CDFI loan attributes:** The average microloan in our dataset is \$14,906 and the median is \$10,830. The average term is just under three years, while the average interest rate is 13 percent—higher than conventional small business credit, but far lower than alternatives available in the private market for microfinancing, such as small business credit cards and merchant cash advances.
- **Firm attributes:** Just over half of microloan borrowers are nonemployers, while the median number of full-time equivalent employees for the rest is three, and the average is four. The median firm's age in business is four years. One in three microloan borrower firms is a startup—in operation for two years or less.
- **Owner attributes:** 93 percent of firms are owned by an individual, while the remainder have two or more owners. Most microloan borrowers in our dataset are people of color—with more than three fourths of the owners identifying as such. This contrasts sharply with overall business ownership patterns in the US.⁹ About one-third of the firms are female-owned and roughly two-thirds are male-owned, with a small share being equally male and female-owned.¹⁰

TABLE 1

Microloan Borrower Loan, Owner, and Firm Attributes

Attribute	Value
Number of firms	16,862
Loan size (average)	\$14,906
Loan size (median)	\$10,830
Term (months, average)	33
Interest rate (average)	13
Nonemployer share	54%
Employees among employer firms (FTE, average)	4
Employees among employer firms (FTE, median)	3
Multiple owner share	7%
Years in business (median of all firms)	4
Startup	33%
Race/ethnicity of owner	
American Indian/Alaska Native-owned/ Native Hawaiian/Pacific Islander-owned	2%
Asian-owned	7%
Black-owned	16%
Hispanic/Latino-owned	53%
White-owned	18%
No majority ownership	4%
Gender of owner	
Female-owned	32%
Male-owned	65%
Equally male and female owned	3%

Source: Data from study CDFIs.

Notes: FTE = full-time equivalent. Dollar values adjusted for inflation to 2022. Races/ethnicities other than Hispanic/Latino are non-Hispanic.

Reflecting the service areas of the CDFIs in our study, microloan borrowers in our sample are primarily concentrated in the South and Southwest. About 33 percent of microloan borrowers are based in California, 28 percent are in Texas, and the remainder are spread across other states. The neighborhoods in which their businesses are located tend to be predominantly Hispanic/Latino and White and have relatively high levels of small business jobs (table 2). The neighborhoods where businesses in our sample are located are broadly reflective of neighborhoods across the US, with the exception of being in higher Hispanic/Latino, lower White, and higher home price neighborhoods (likely reflecting the South and Southwest geographic concentration).

TABLE 2

Summary Statistics for Business Location Census Tracts

	Microloan borrowers' business location tracts	All US tracts
Average poverty rate	18%	15%
Share population with bachelor's degree	19%	21%
Average tract median income	\$61,038	\$62,490
Average tract median home value	\$304,072	\$258,762
Average unemployment rate	6%	8%
Average number of jobs	3,368	1,546
Average number of neighborhood small business jobs	567	299
Share of residential population identifying as...		
Asian	8%	5%
Black	11%	13%
Hispanic/Latino	45%	17%
White	33%	62%

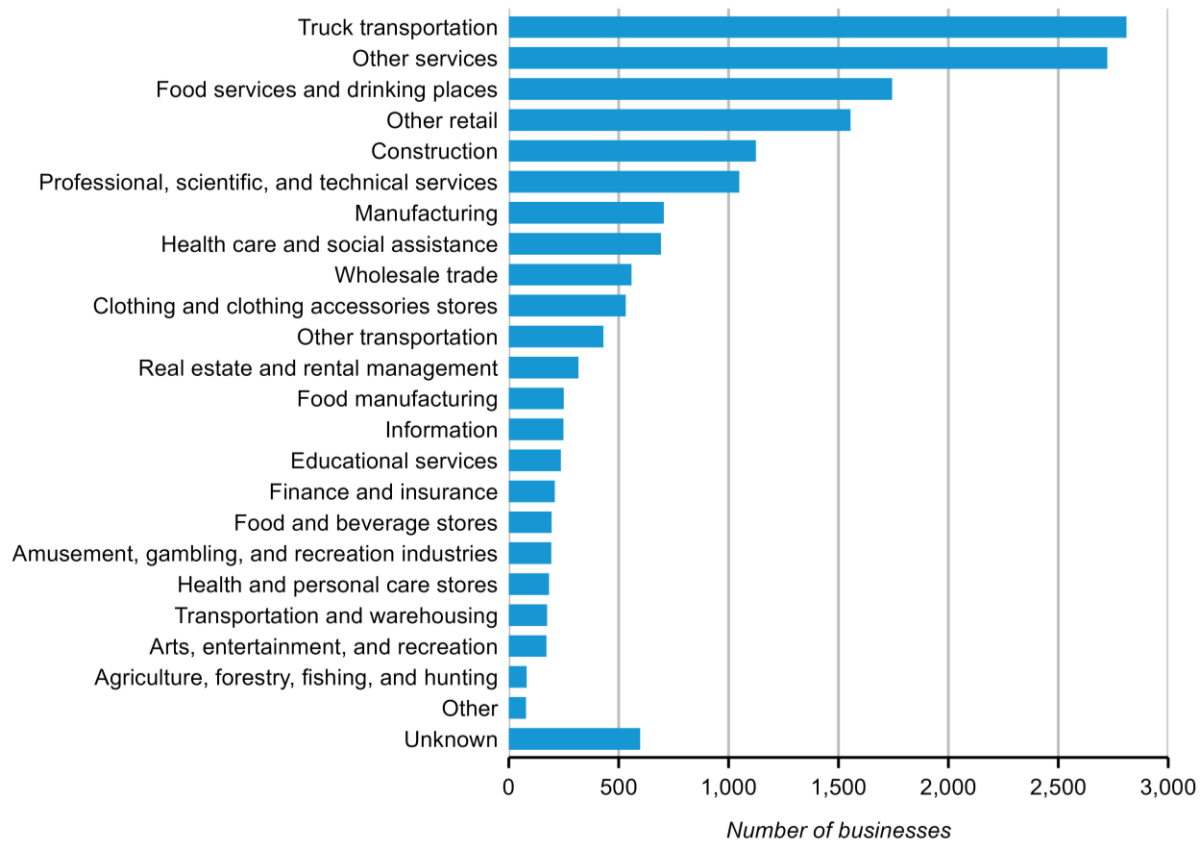
Sources: Data from study CDFIs and American Community Survey five-year data.

Notes: Dollar values adjusted for inflation to 2022. Races/ethnicities other than Hispanic/Latino are non-Hispanic. Calculations are unweighted.

Microloan borrowers in our dataset represent over 870 unique industries, but the most common are truck transportation, food service, retail, and construction (figure 2). Trucking firms are overrepresented in our dataset because one of the contributing CDFIs specializes in that loan product. Loans for trucking firms are significantly larger than the other industries represented in the data (figure 3). We looked at credit outcomes separately for truck loans, and did not find differences we thought worth reporting. The variety of industries represented is generally reflective of the distribution of industries for US firms as a whole, though trucking firms are overrepresented.

FIGURE 2

Number of Microloan Borrowers by Industry

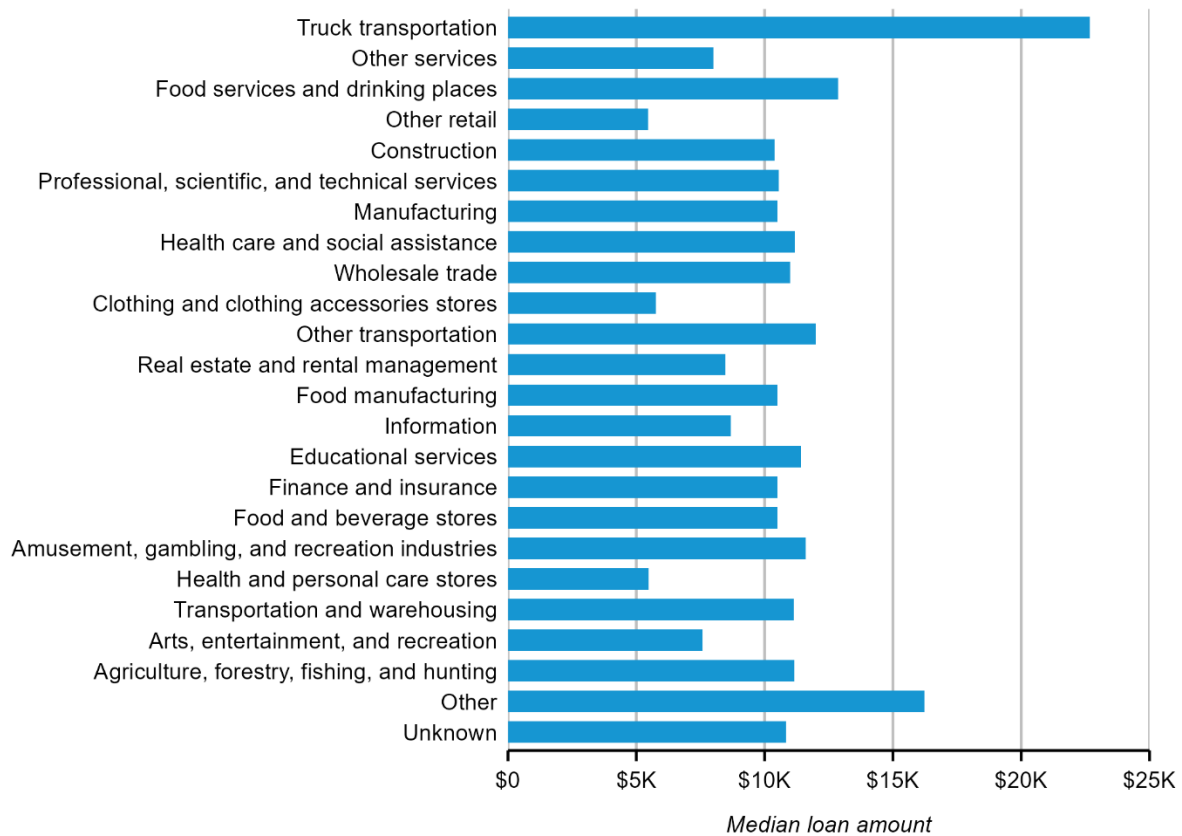


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Source: Data from study CDFIs.

FIGURE 3

Median Size of Loans to Microloan Borrowers by Industry



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Source: Data from study CDFIs.

Borrowers Tend to Have Low Initial Credit Standing

Microbusiness owners' consumer credit standing is generally low before they get a loan—11 percent do not have a credit score and another 26 percent have a score below 600. Just 26 percent of microloan borrowers have a business credit score before their microloan and of those, just 9 percent are in the top half of potential scores (table 3).

TABLE 3

Firm and Owner Credit Characteristics before Receiving a CDFI Loan

Firm and owner indicator	Microloan borrowers
Owner with no consumer score	11%
Owner with a consumer score <600	26%
Owner has one or more consumer delinquencies	14%
Firm has a business credit risk score ^a	26%
Firm has a top-half business credit risk score (for those with a score)	9%

Sources: Data from study CDFIs and a credit bureau.

Notes: ^aThe credit bureau that provided the data used in this study calculates a business risk score, analogous to a consumer credit score, which predicts the likelihood of delinquency using a combination of both business and consumer trade data. Scores range from 1 to 100. Higher scores are better. A score of 25 or less is considered risky.

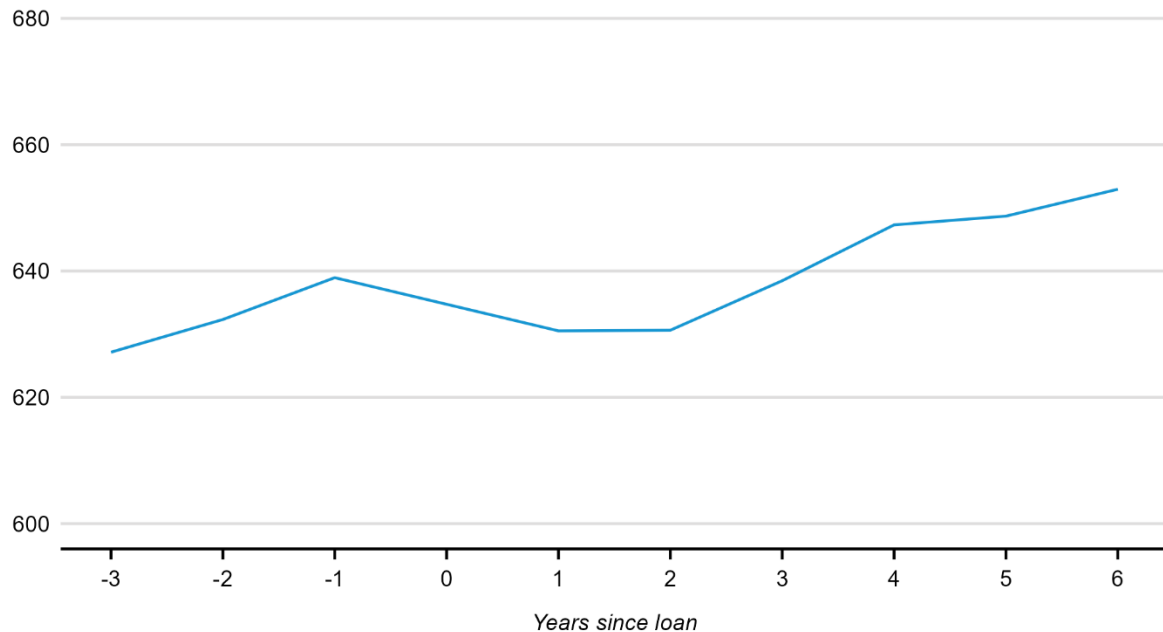
Microloan Business Owner Consumer Credit Scores Improve over Time

The average microloan business owner's consumer credit score goes up after getting a loan, a trend that holds across business age, business size, racial group, and gender. The average VantageScore¹¹ for microloan borrowers rises from 637 to 650 from one year before to six years after a CDFI microloan. VantageScores dip immediately after getting a loan but recover by three years postloan and continue to increase (figure 4). Borrowers with low initial VantageScores—those with scores less than 600 preloan—increase their score by an average of 16 points in the following year. In figure 4, we only include borrowers with consumer credit records before receiving a loan, to avoid any compositional effects from including borrowers who only become visible after receiving a loan. This dip likely occurs due to increased credit utilization—common behavior for a growing business. Nearly half of previously unscored borrowers are scored by six years postloan, with an average score of 621, not much lower than other borrowers. This suggests that business owners with thin files have different profiles than those with initially poor scores.

FIGURE 4

Average Owner VantageScore

Microloan borrowers with a consumer record before receiving a loan



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Source: Data from study CDFIs and a credit bureau.

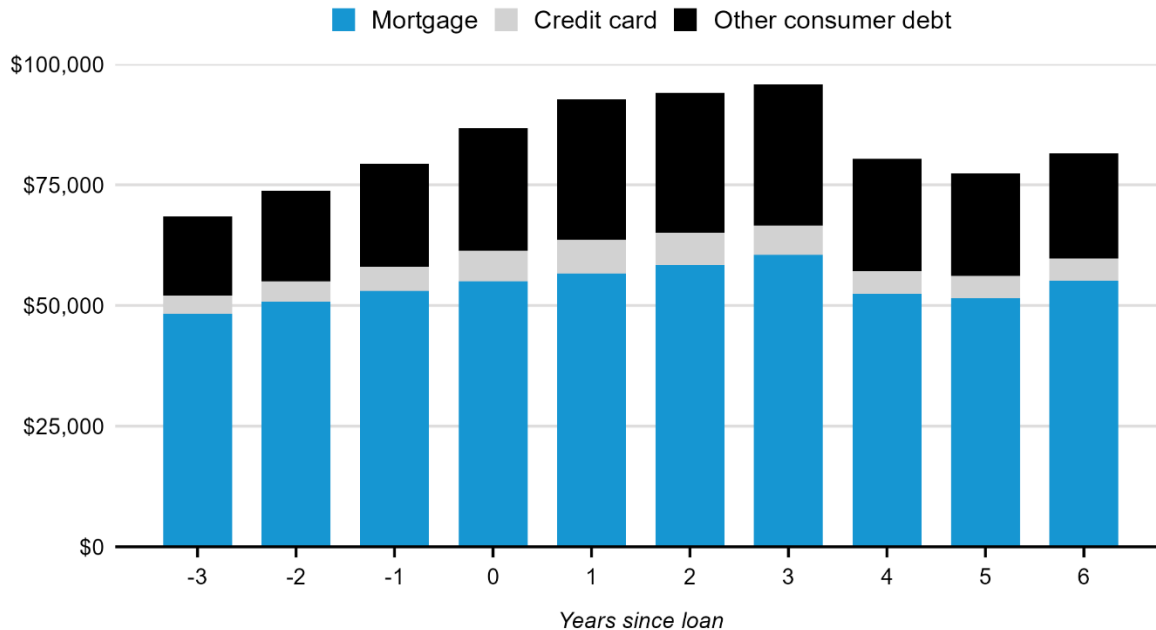
Microloan Business Owner Consumer Debt Levels Increase after Receiving a Loan

Microloan borrowers use a mix of consumer (i.e., personal) credit, including home, credit card, auto, and student debt. Consumer debt grows on average in the years immediately preceding and following the CDFI loan across all major categories, though balances do decline by four years postloan. We note that the median consumer debt balance is about a quarter of the average. This is largely because only 23 percent of microloan borrowers are mortgage holders, and mortgages are high-balance loans relative to other consumer credit.

Looking specifically at credit card debt levels, we see that they increase by 40 percent between the year before the CDFI loan and the year after. Entrepreneurs often use personal credit cards to supplement their firm's operations, which may explain this pattern of credit card use; the same may also hold for auto loans. While CDFI loans certainly assist owners in growing their businesses, the findings suggest that owners continue to take on consumer debt during their firms' development.

FIGURE 5

Average Consumer Debt by Source for Microloan Borrowers



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Sources: Data from study CDFIs and a credit bureau.

Note: Dollar values adjusted for inflation to 2022.

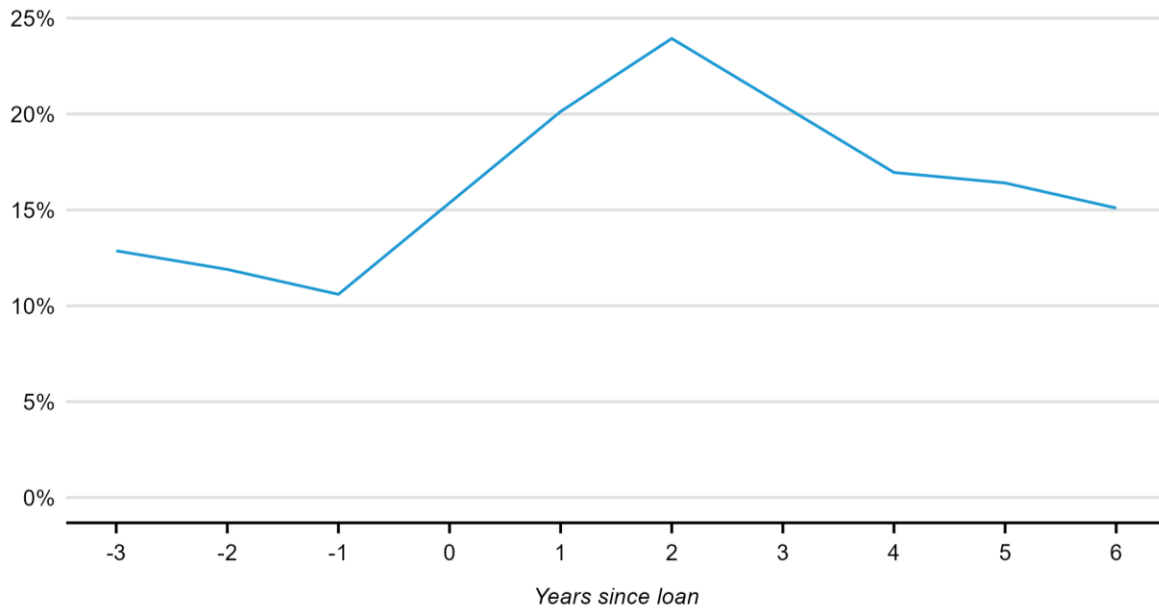
Share of Business Owners with a Consumer Delinquency Increases Temporarily after Receiving a Loan

The percentage of businesses with a consumer delinquency increases in the first years after receiving a loan from a CDFI, before moderating (figure 6). Eleven percent of all microloan borrowers had a consumer delinquency in the year before their CDFI loan, rising to 25 percent two years after the loan, and falling again to 16 percent six years after. These data confirm that, with time, business owners are able to navigate taking on business debt in a way that does not imperil their consumer credit standing—but also that there can be bumps along the way.

Consumer delinquency rates and balances do not differ much among microloan business owners across different characteristics, although larger microloan borrowers—those with more than 10 employees—do have delinquencies at lower rates than smaller firms. It should be noted, however, that on average their delinquent balances are still a much larger share of total credit balances than that of small business borrowers, discussed subsequently.

FIGURE 6

Share of Microloan Borrowers with at Least One 30+ Day Consumer Loan Delinquency



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Sources: Data from study CDFIs and a credit bureau.

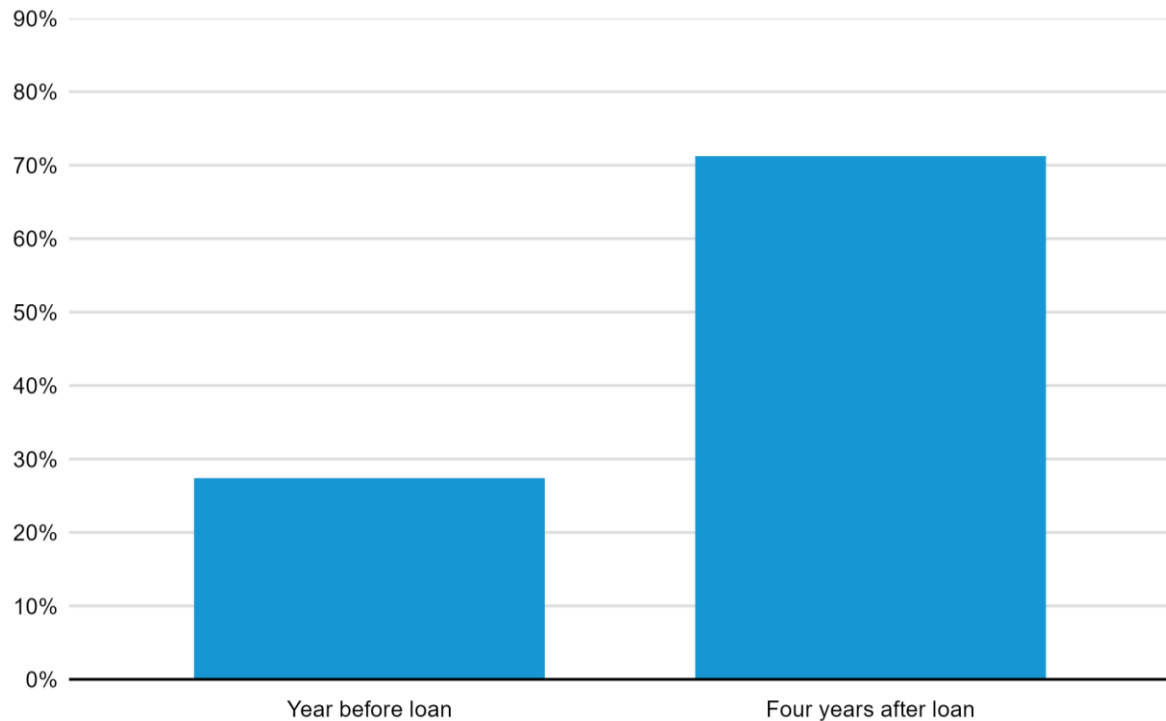
Note: The share calculated represents the proportion of all microloan borrowers that have a nonzero delinquent balance for any consumer trade at least 30 days past due.

Borrowers Establish Business Credit Scores after a Loan

The share of microloan borrowers with a business credit record rose from 27 percent before their CDFI loan to 71 percent by four years after the loan—a dramatic increase (figure 7). In full, 87 percent of microloan borrowers have a business credit record in at least one year in our sample. These results suggest that loans from CDFIs are putting microloan borrowers on a path where they are visible in business credit records, which will help with accessing business credit. Access to conventional credit may enable businesses to qualify for larger amounts of capital at affordable prices.

FIGURE 7

Share of Microloan Borrowers with a Business Credit Risk Score, Pre- and Postloan



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Sources: Data from study CDFIs and a credit bureau.

Business Credit Scores Decrease Moderately among Those with Scores before and after a Microloan

Among the 26 percent of microloan borrowers that appear in the business data for the entire period in our sample,¹² the average business credit risk score is 40 in the year before the CDFI loan and 37 six years after the loan, a small decline. These scores fall within a medium risk category—scores above 50 are considered low risk while scores below 26 are considered high risk. For comparison, a random sample of businesses in the US scored 70 on average during the same time period per our analysis.

Business credit risk score does not vary across several business and owner characteristics. However, there are distinct differences depending on the owner's consumer credit score at the time of the loan. Business owners with a consumer VantageScore rated excellent (i.e., above 780) tend to have a business credit risk score 20 to 25 points higher on average than owners rated very poor (below 500). This could suggest that individuals with positive consumer credit behaviors are better poised to take on

business debt. To a lesser degree, business credit risk scores also correlate with firm age—start-ups score 2.4 points lower on average.

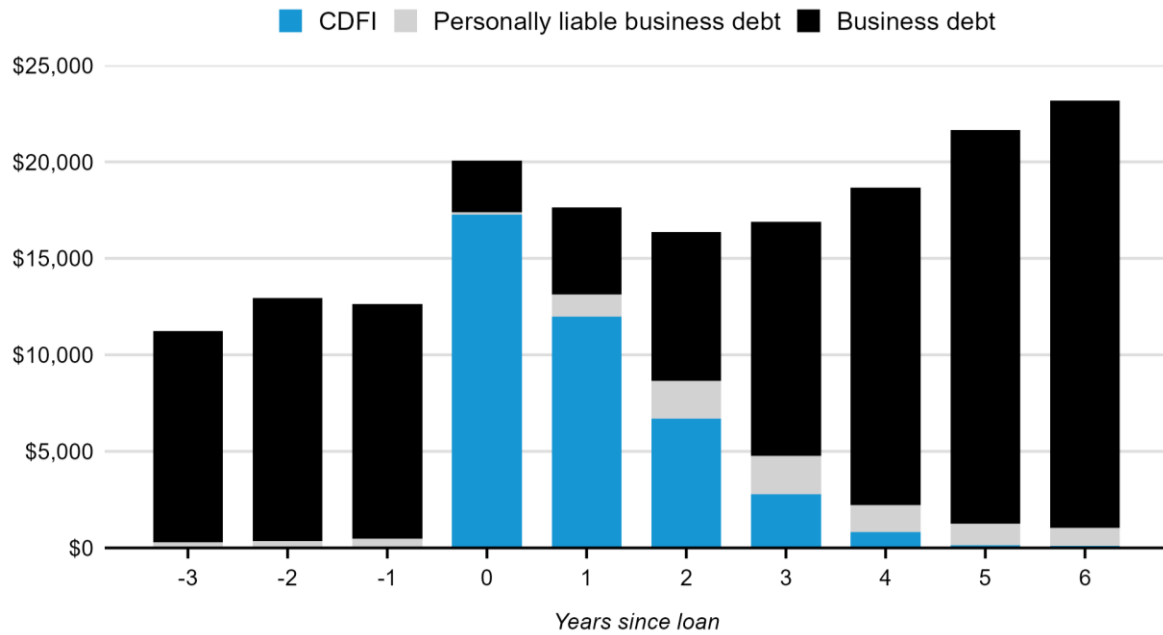
Other Business Debt Replaces CDFI Debt over Time

Microloan borrowers use business debt from multiple sources, not just from their CDFI lender. We construct a three-part business debt balance, comprising the CDFI loan, personally liable business debt (business or commercial loans, lines of credit, or credit cards) reported on the consumer record, and all other business debt reported in the business record.

On average, the total business debt balance grows over time (figure 8). The CDFI debt is most of the balance in the first two years of its term, but other debt fills in the gap left as businesses pay off the loan balance. However, a different pattern emerges for the median microloan borrower (figure 9). The median borrower uses very little debt aside from the CDFI loan, and, once it pays off the loan, reaches debt levels less than half that of the initial loan balance by year six. This trend suggests that some businesses can access credit from multiple sources including CDFIs, while many limit their usage of credit. Whether this is a consequence of financial struggle and barriers to access or reflects a business owner's attitude toward credit is unclear.

FIGURE 8

Average Business Trade Balance by Source for Microloan Borrowers



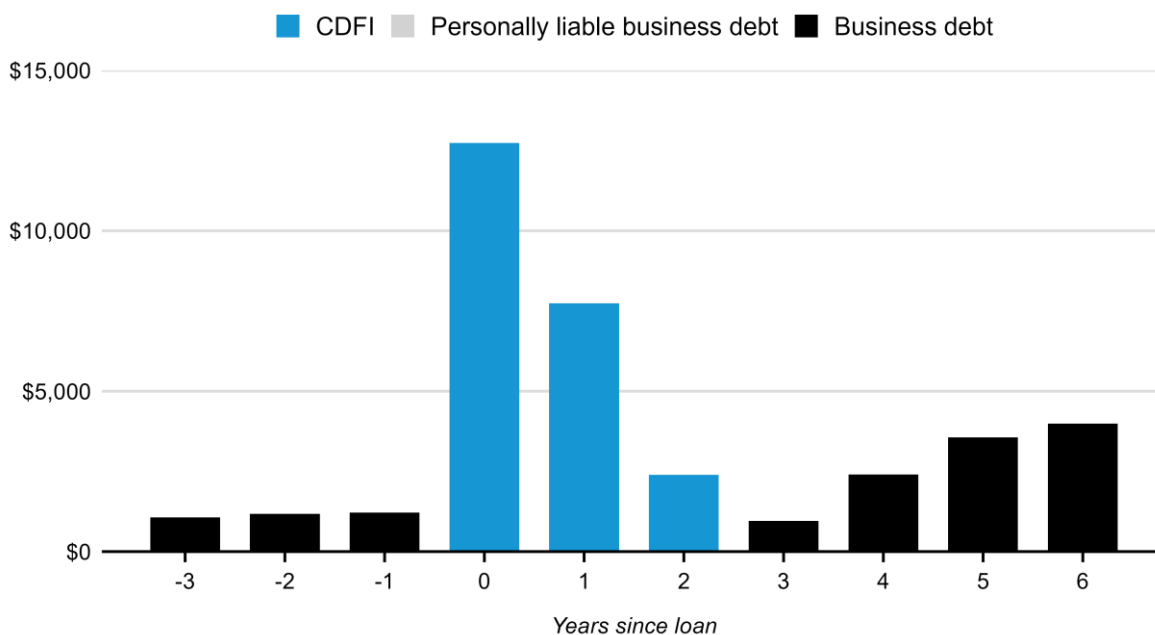
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Sources: Data from study CDFIs and a credit bureau.

Note: Dollar values adjusted for inflation to 2022.

FIGURE 9

Median Business Trade Balance by Source for Microloan Borrowers



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Sources: Data from study community development financial institutions and a credit bureau.

Note: Dollar values adjusted for inflation to 2022.

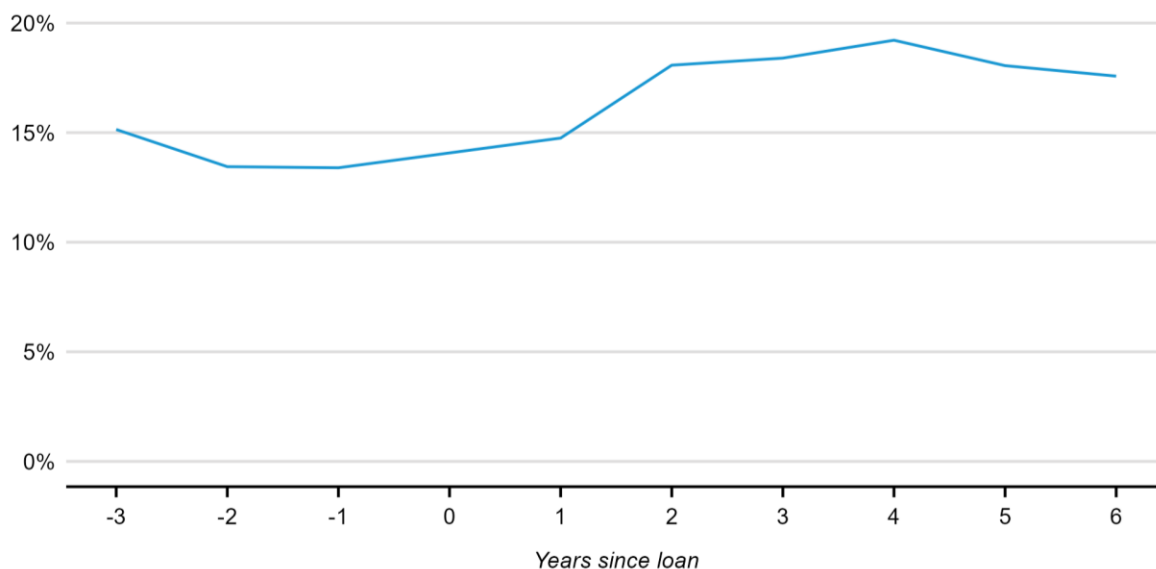
Share of Microloan Borrowers with a Business Delinquency Increases

We next look at business loan performance (on loans other than the CDFI loan). Of the 87 percent of microloan borrowers with business credit data at any point in our study, 76 percent never had a business delinquency at any point, 5 percent had one or more 30-day (but not 90-day) business debt delinquencies, and 18 percent had one or more 90-day delinquencies. Roughly 22 percent of microloan borrowers with business data pre- and postloan have a business loan delinquency of any duration in the year before their CDFI loan, which rises to 28 percent by year two and dips to 24 percent by year six.

A business debt delinquency of 90 days or more suggests that a firm is not capable of collecting revenues that are sufficient to cover its debt payments, potentially indicating a high degree of financial stress. The share of microloan borrowers with a 90-day delinquency of any amount increases from 13 to 18 percent between the year before the loan and year six (figure 10). The greatest increase happens between years one and two. One potential explanation for the increase in delinquencies is the increase in credit utilization overall for microloan borrowers, which may stem from revenue volatility.

FIGURE 10

Share of Microloan Borrowers with 90+ Day Business Loan Delinquency



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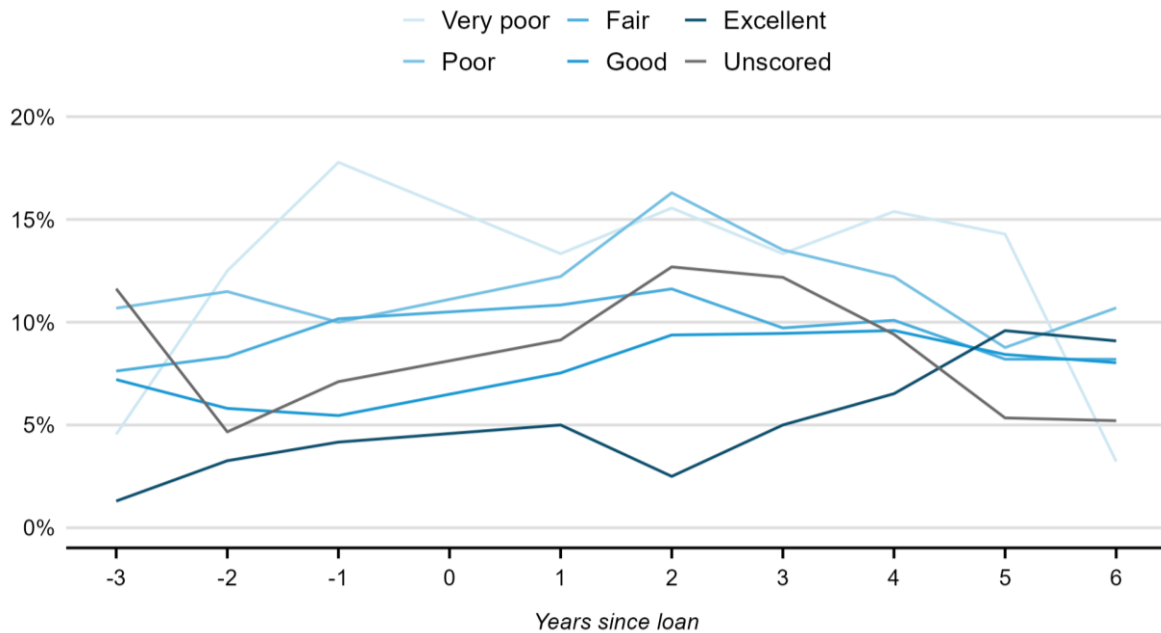
Sources: Data from study CDFIs and a credit bureau.

Rates of Business Collections, Filings, or Bankruptcy Are Associated with Consumer Credit Score, but Change over Time Is Not

The percent of microloan borrowers having a business collection, filing, or bankruptcy rises from 7.3 percent in the year before the CDFI loan to 11 percent by two years after. It varies significantly by consumer credit score, with higher consumer credit scores associated with lower business collections, filings, or bankruptcy (figure 11). (Note, however, that unscored individuals are often toward the middle, not the bottom of these risk factors.) Interestingly, however, credit score categories do not largely predict change in business collections, filings, or bankruptcy, as some of the largest increases in the occurrence of these were among those with excellent personal credit.

FIGURE 11

Share of Microloan Borrowers with Business Collections, Filings, or Bankruptcy by Preloan VantageScore



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Sources: Data from study CDFIs and a credit bureau.

Findings for Small Business Borrowers

CDFI small business borrowers differ from microloan borrowers in several ways, most evident in owner and firm characteristics. Interestingly, though, there are some commonalities in microloan and small business borrower credit outcomes.

Firm and Borrower Preloan Characteristics

Table 4 and table 5 provide descriptive statistics for small business owners and businesses before they receive a loan. Most small business borrowers are employers, established for nine years or longer, and use larger amounts of debt at more conventional terms.

- CDFI loan attributes:** On average, small businesses in our sample borrow nearly \$400,000 from a CDFI, while the median loan is significantly smaller, roughly \$117,000. The average term is 112 months and the average interest rate is 8 percent.

- **Firm attributes:** Nearly two-thirds of small business borrowers are employers, but this does mean a sizable minority of small business borrowers are nonemployer firms. The median number of full-time equivalent employees among employer firms is 8. Some firms are significantly larger, and thus the average is 24 full-time equivalent employees among employer firms. While a fifth of firms are startups, the median firm has been in business for nine years.
- **Owner attributes:** Most firms are owned by an individual (72 percent), but this does mean a sizable share of CDFI small business loan borrowers are firms with multiple owners (28 percent). Small business borrowers in our sample are more likely to be Hispanic/Latino than business owners in the US, though less likely than microloan borrowers. Asian owners are much more represented among CDFI small business borrowers than in the US as a whole (or among CDFI microloan borrowers). About two-thirds of firms are male-owned, while 16 percent of firms that are small business borrowers are female-owned. The remainder are equally split by gender of ownership. (These are fairly close to US overall ownership trends by gender.)

TABLE 4

Small Business Borrower Loan, Owner, and Firm Attributes

Attribute	Value
Number of firms	5,571
Loan size (average)	\$397,281
Loan size (median)	\$117,289
Term (months, average)	112
Interest rate (average)	8
Nonemployer share	35%
Employees among employer firms (FTE, average)	24
Employees among employer firms (FTE, median)	8
Multiple owner share	28%
Startup	21%
Years in business (median of all firms)	9
Race/ethnicity of owner	
American Indian/Alaska Native-owned/ Native Hawaiian/Pacific Islander-owned	1%
Asian-owned	21%
Black-owned	4%
Hispanic/Latino-owned	34%
White-owned	31%
No majority ownership	6%
Gender of owner	
Female-owned	16%
Male-owned	69%
Equally male and female owned	15%

Source: Data from study CDFIs.

Notes: Dollar values adjusted for inflation to 2022. Races/ethnicities other than Hispanic/Latino are non-Hispanic. Female-owned firms have more than half of ownership identifying as female. Male-owned firms have more than half of ownership identifying as male.

The small businesses in our sample are mostly located in the West and Midwest, with some scattered across the other regions of the country. California in particular has a large share of small businesses in our sample, at 42 percent. The small businesses are located in neighborhoods that are broadly reflective of the US as whole, except that, as with microloan borrowers, they tend to be in neighborhoods with higher home prices and relatively more residents identifying as Hispanic/Latino or Asian, and fewer identifying as Black or White, reflecting the geographies of where the participating CDFIs are located.

TABLE 5

Summary Statistics for Business Location Census Tracts

	Small business borrowers' business location tracts	All US tracts
Average poverty rate	16%	15%
Share population with bachelor's degree	20%	21%
Average tract median income	\$69,247	\$62,490
Average tract median home value	\$399,744	\$258,762
Average unemployment rate	6%	8%
Average number of jobs	4,330	1,546
Average number of small neighborhood business jobs	729	299
Share of residential population identifying as...		
Asian	11%	5%
Black	8%	13%
Hispanic/Latino	43%	17%
White	34%	62%

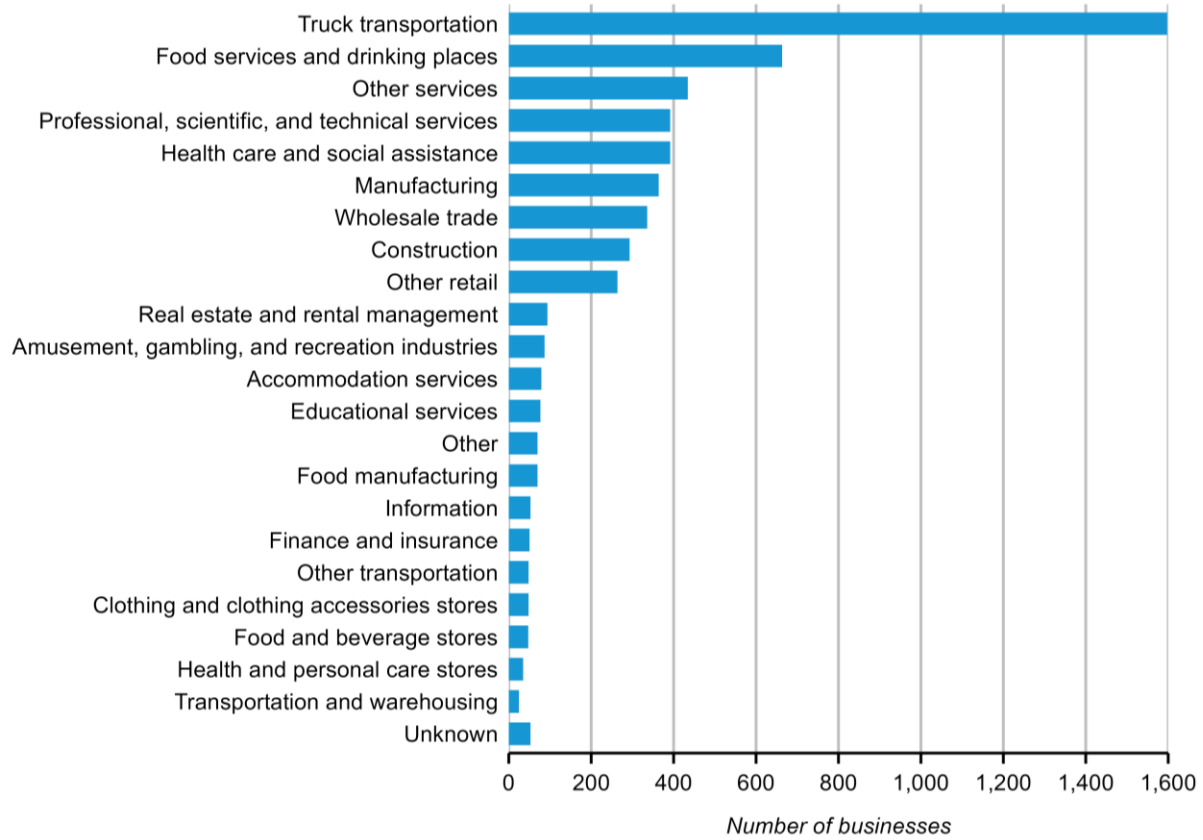
Sources: Data from study CDFIs and American Community Survey 5-year data.

Notes: Dollar values adjusted for inflation to 2022. Races/ethnicities other than Hispanic/Latino are non-Hispanic.

Small business borrowers represent 616 unique industries at the six-digit NAICS level. The most common specific industries are truck transportation and food service (figure 12), which are overrepresented in the data relative to small business borrowers in general. The median loan for almost all industries is less than \$300,000, but firms providing accommodation services—typically hotels and motels—far exceed other industries in loan size (figure 13). These are firms receiving SBA 504 loans, which tend to be larger than 7(a) small business loans and more often involve real estate purchase or refinancing.

FIGURE 12

Number of Small Business Borrowers by Industry

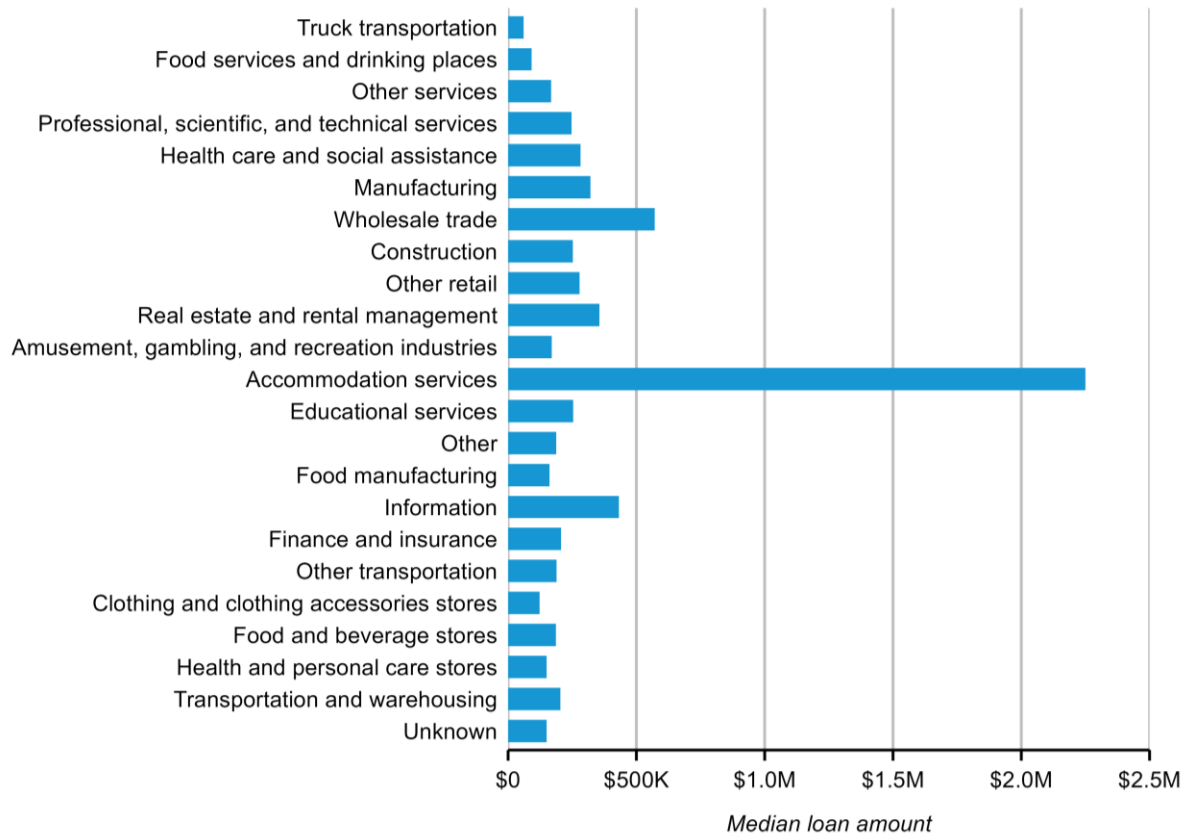


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Source: Data from study CDFIs.

FIGURE 13

Median Size of Loans to Small Business Borrowers by Industry



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Source: Data from study CDFIs.

Borrowers Have Strong Initial Credit Standing

Table 6 provides summary statistics for the credit status of small business borrowers before receiving a CDFI loan. Just 4 percent of owners lack a consumer credit score and only 6 percent have a score below 600. Fifty-seven percent of small businesses have a business score and of those who do, roughly one-third are in the top half nationally.

TABLE 6

Firm and Owner Characteristics before Receiving a CDFI Loan

Firm and owner indicator	Small business borrowers
Owner with no consumer score	4%
Owner with a consumer score <600	6%
Owner has one or more consumer delinquencies	3%
Firm has a business credit risk score	57%
Firm has a top-half business credit risk score (for those with a score)	32%

Sources: Data from study CDFIs and a credit bureau.

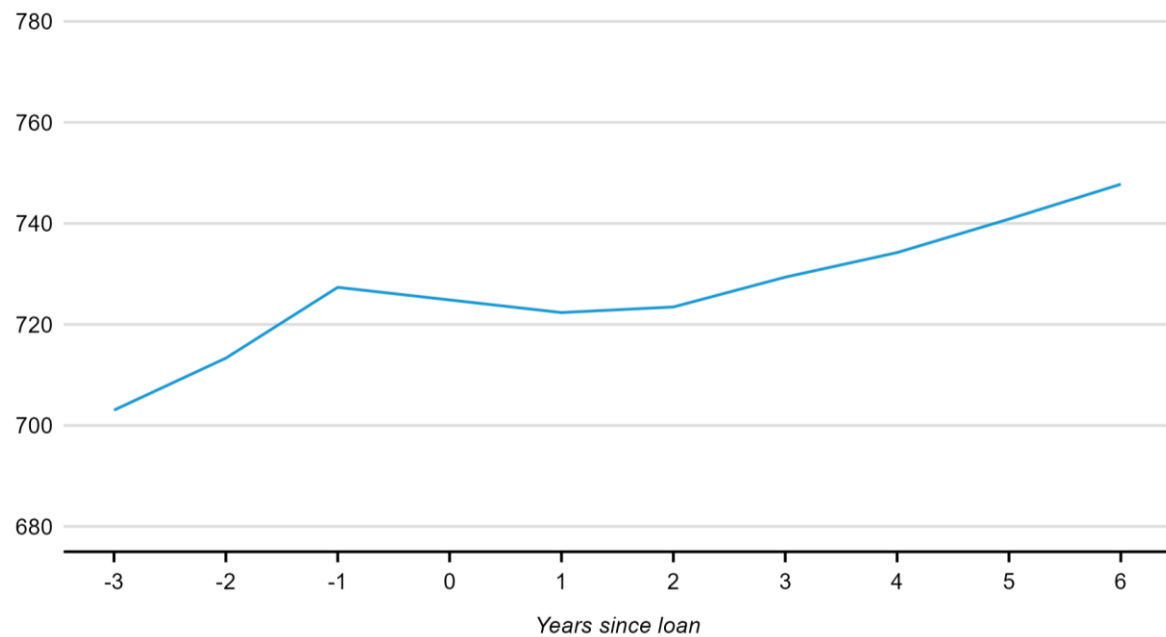
Consumer Credit Scores Improve over Time

The average business owner credit score goes up after getting a CDFI small business loan, a trend that holds across racial group, gender, business age, and business size. The average consumer score for small business borrowers rises from 758 to 775 from one year before to six years after a CDFI loan (figure 14). Borrowers who initially scored the lowest tend to see the greatest increase in their VantageScore over time. Those with preloan scores of less than 600 see an increase of 47 points on average in the year following the CDFI loan. This effect persists even by six years postloan, to an average increase of 79 points. Borrowers who initially scored better see increases of smaller magnitude.

FIGURE 14

Average Owner VantageScore

Small business borrowers with a consumer record before receiving a loan



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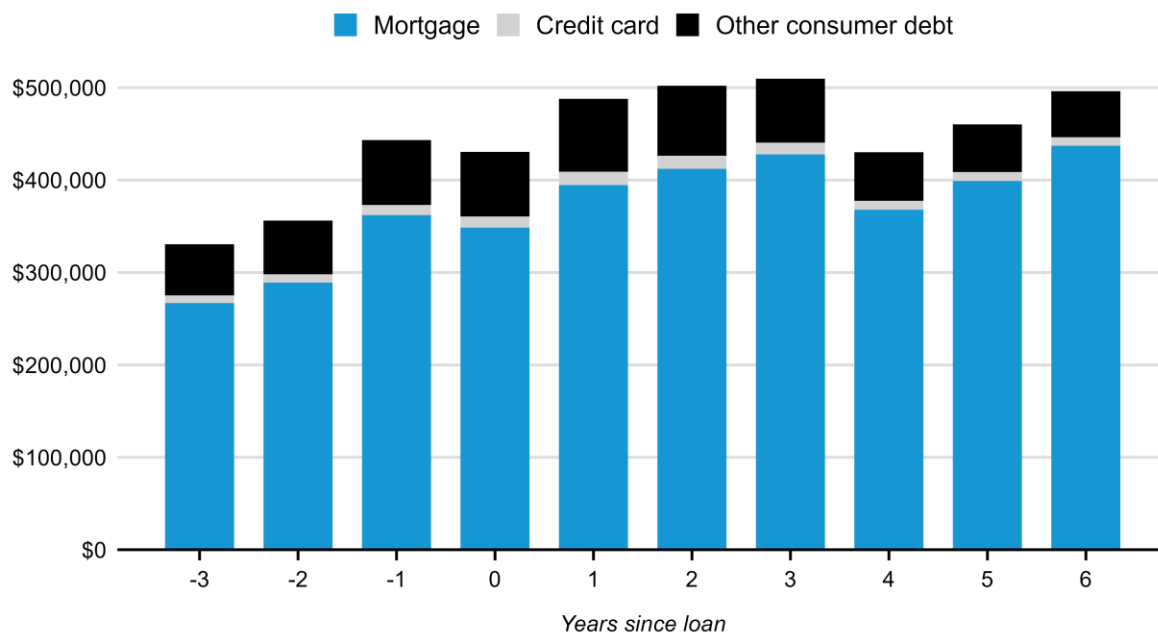
Sources: Data from study CDFIs and a credit bureau.

Business Owner Consumer Debt Levels Increase after Receiving a Loan

The average consumer debt balance for small business borrowers grows in the first three years after a loan before dipping. Mortgage balances represent the largest share of consumer debt (figure 15). Credit card and other debt balances increase in the years immediately following the loan, potentially suggesting the use of personal credit to supplement business needs. Small business borrowers are much more likely to have a mortgage than microloan borrowers, and consequently may also have equity in their home to use as collateral for business credit. Total consumer debt for small business borrowers also increases steadily with firm age and is primarily composed of mortgage debt.

FIGURE 15

Average Consumer Debt by Source for Small Business Borrowers



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Sources: Data from study CDFIs and a credit bureau.

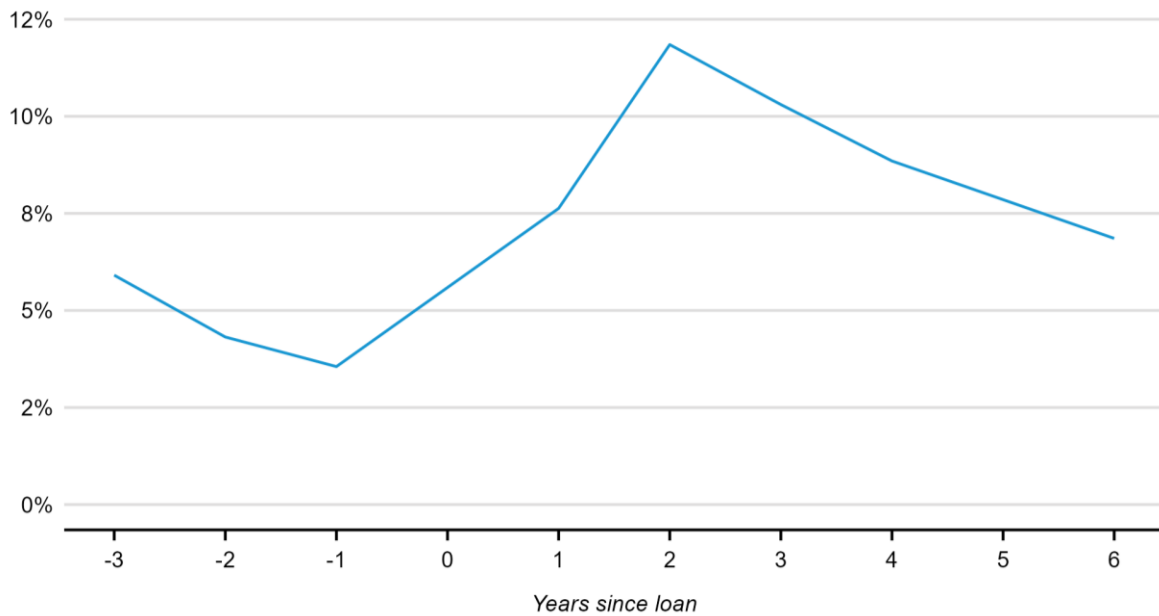
The Share of Consumers with a Delinquency Increases but Recovers

The percentage of small business borrowers with a consumer delinquency increases in the first years after getting a loan from a CDFI, before moderating (figure 16). For small business owners, the rate was 4 percent before the loan, 12 percent two years later, and 7 percent six years later. With time, business owners can take on business debt without permanently hindering their credit standing. However, at least initially, taking on debt and growing one's business may lead to worsened personal credit standing.

Consumer delinquency rates are higher for sole proprietors (12 percent) compared with employer firms (7 percent) four years postloan. However, the average delinquent balance is lower, approximately \$9,100 compared with \$14,500. Delinquency rates are higher for Hispanic/Latino and Black owners, but delinquent balances are lower compared with other firms. The average share of trades never delinquent or derogatory during the study period is 73 and 68 percent for Hispanic/Latino and Black owners, and 79 and 81 percent for Asian and White owners, respectively.

FIGURE 16

Share of Small Business Borrowers with at Least One 30+ Day Consumer Loan Delinquency



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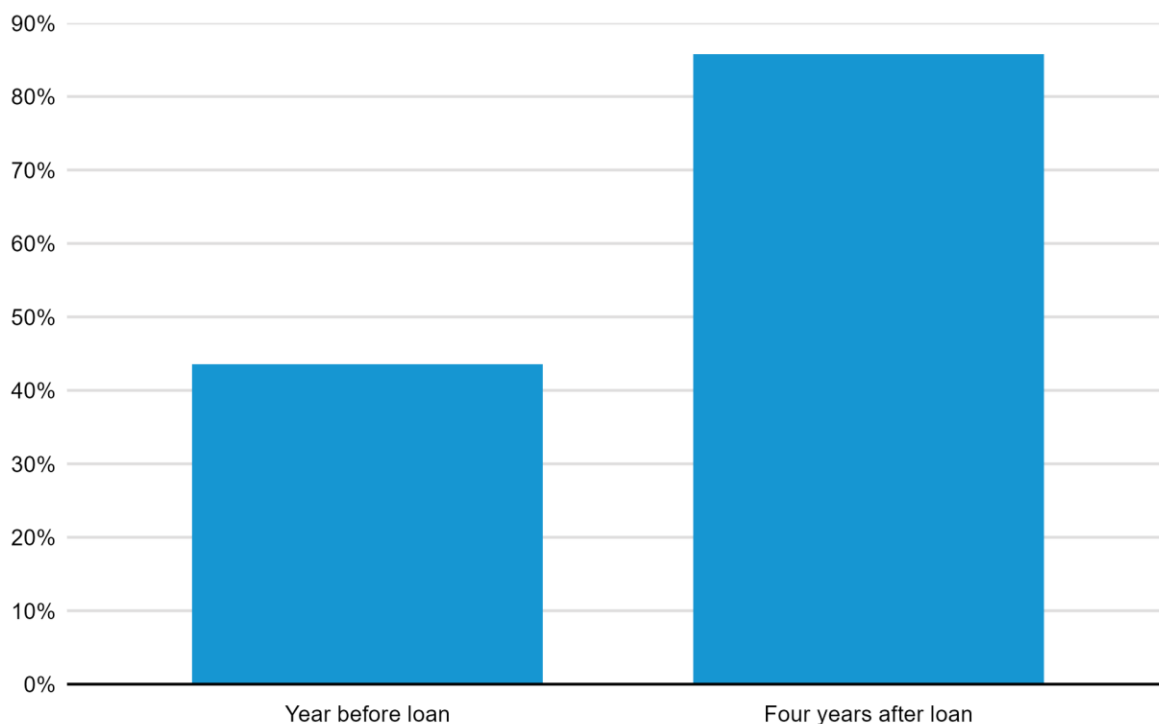
Sources: Data from study CDFIs and a credit bureau.

Borrowers Establish Business Credit Scores after a Loan

The share of small business loan borrowers with a business credit score grew from 44 percent to 86 percent between the year before the loan and four years after—a dramatic increase (figure 17). These results suggest that loans from CDFIs are putting small business loan borrowers on a path where they are visible in business credit records, which will help them access mainstream business credit.

FIGURE 17

Share of Small Business Borrowers with Business Credit Risk Score, Pre- and Postloan

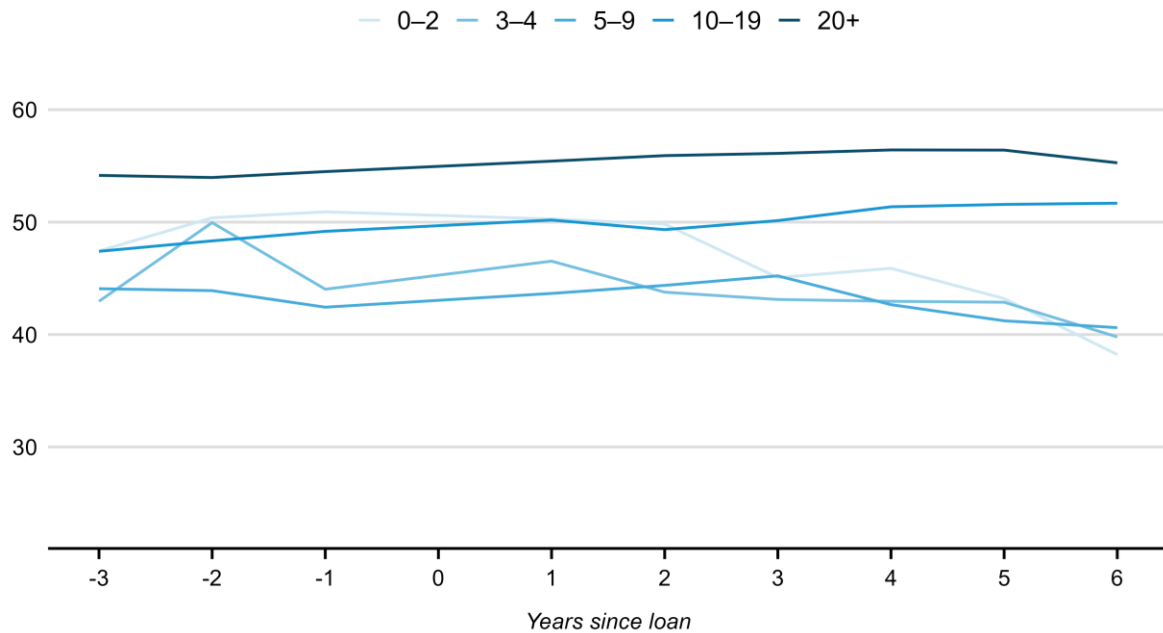


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Sources: Data from study CDFIs and a credit bureau.

Business Credit Scores Stable for Borrowers among Those with Scores before and after a Small Business Loan

We do not see sizable changes in business credit scores among the 44 percent of small business owners with a business credit score before and after their CDFI loan. The average business credit risk score for these small business borrowers is 50 in the year before the CDFI loan and 51 six years after the loan. This suggests that many small business borrowers that are established in the business credit data receive a loan when their business is in a stable position and can manage the extra debt. This finding does diverge when looking at firms by the number of years in business. Firms with fewer than ten years in operation decline in business credit risk score on average, while those with ten or more years improve (figure 18).

FIGURE 18**Average Business Credit Risk Score by Number of Years in Business***Small business borrowers*

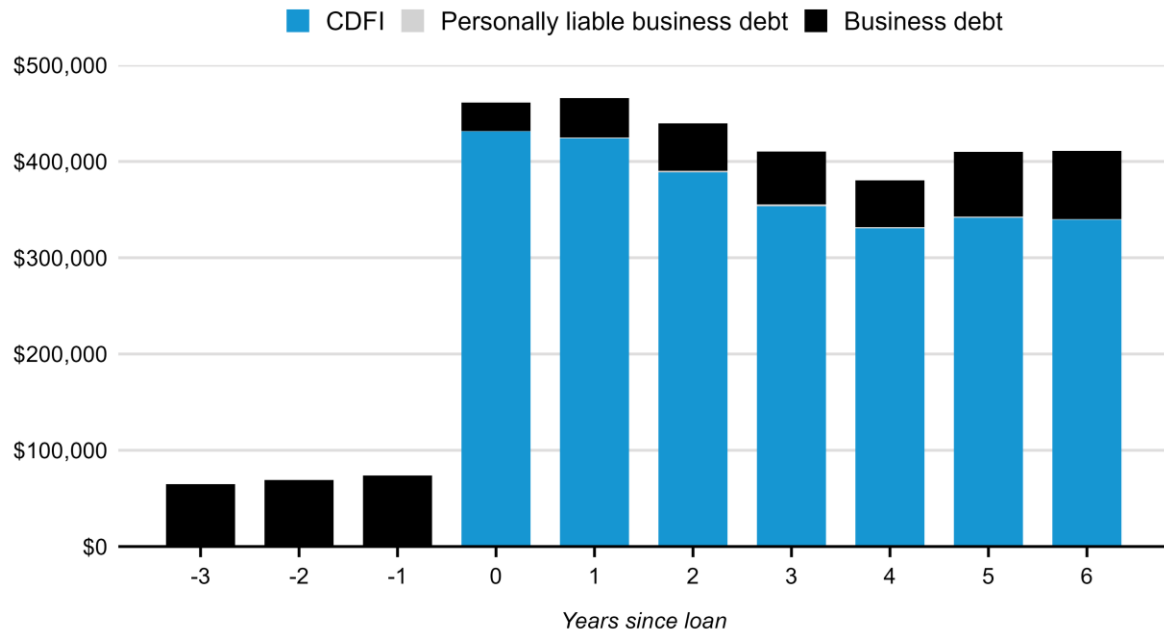
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Sources: Data from study CDFIs and a credit bureau.**Other Business Debt Increases after Receiving a Loan Then Tapers Modestly**

The average total balance of business debt for small business borrowers substantially increases with the CDFI loan at an initial average balance of \$342,000 (figure 19). CDFI loan balances decline gradually, as the average term is nearly 10 years. As the CDFI balance is paid off, other business debt grows, increasing from nearly \$27,000 in the year of the loan to nearly twice that by year four. However, the median small business borrower takes on very little additional debt, an initial balance of \$76,700 (figure 20). This pattern of preexisting debt suggests that the CDFI loan may not be the first loan for most small businesses, but it is a potential step toward larger operations and subsequent use of credit. Note that even prior to the loan, business debt levels exceed nonmortgage consumer debt levels for small business owners. These firms are well-established and have a credit history that exists separately from that of their owner.

FIGURE 19

Average Business Debt Balance by Source for Small Business Borrowers



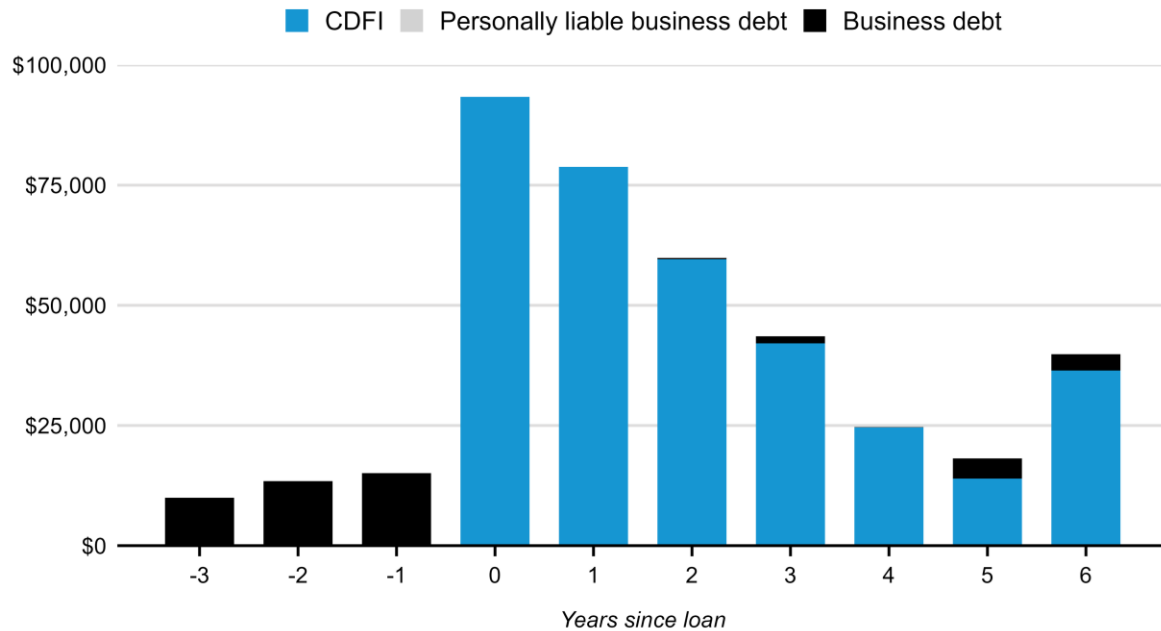
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Sources: Data from study CDFIs and a credit bureau.

Note: Dollars are adjusted for inflation to 2022.

FIGURE 20

Median Business Debt Balance by Source for Small Business Borrowers



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Sources: Data from study CDFIs and a credit bureau.

Note: Dollars are adjusted for inflation to 2022.

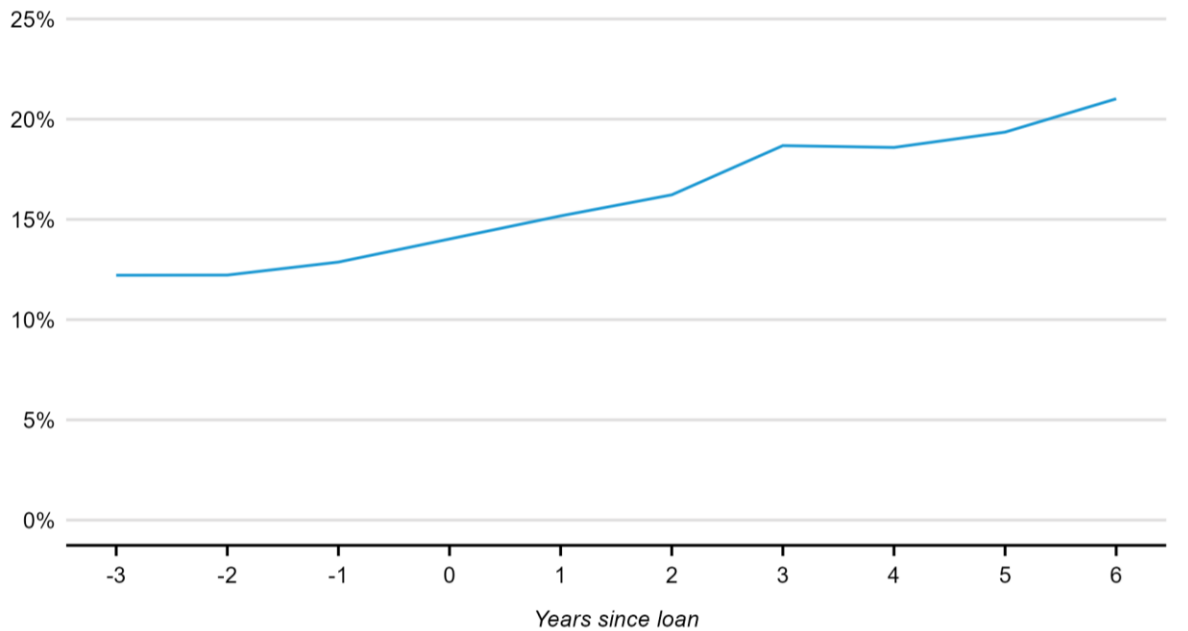
Share of Small Business Borrowers with a Business Delinquency Increases over the Study Period

In the year before their CDFI loan, 26 percent of small business loan borrowers have a business delinquency over 30 days (in any amount), which increases to 32 percent by year two and 35 percent by year six. But while the share of all firms with a delinquency never exceeds 35 percent in a given year, 41 percent of firms will experience a delinquency at some point in time. Of small business loan borrowers with business credit data, 59 percent never had a business delinquency, 9 percent had one or more 30-day (but not 90-day) delinquencies, and 32 percent had one or more 90-day delinquencies.

The share of businesses with a 90-day delinquency of any amount increases from 13 percent to 21 percent between the year before the loan and year six (figure 21). As a share of total business trade volume, 90-day delinquent volume is less than 4 percent on average.

FIGURE 21

Share of Small Business Borrowers with 90+ Day Business Loan Delinquency



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Sources: Data from study CDFIs and a credit bureau.

Rates of Business Collections, Filings, or Bankruptcy

Of small business borrowers with business records, 6.2 percent experience collections, filings, or bankruptcy in the year before a CDFI loan. This share increases to 10.6 percent by four years postloan. These indicators suggest that a business is experiencing significant financial stress and may precede closure. While there is some variation in time by the demographics of business ownership, it is not significant. After the CDFI loan, the rate of indicators of business financial stress is higher for younger firms and those whose owners have lower initial VantageScores. This suggests that firms led by relatively less experienced entrepreneurs may be more likely to encounter financial setbacks that limit their capacity to take on business credit.

Implications and Conclusion

The finances of small businesses have been too little studied. This is especially true when following firms over time, and even more true when simultaneously trying to understand the finances of small business

owners. This study represents a major step forward in helping us understand how CDFI business borrowers fare after getting a loan.

To recap the major findings, it is hard to overstate the differences between microloan and small business loan borrowers. They are as different as an average loan of nearly \$15,000 and \$400,000, or an average credit score of 637 and 758. Firm ages, sizes, industries, ownership, and other characteristics diverge as well. And yet, for both these groups, there are some shared experiences after getting a CDFI loan. It appears both microloan and small business borrowers are able to improve their consumer credit scores in the years after origination—a promising sign. This is true for both groups even though owner consumer debt levels rise after getting a CDFI loan. However, this latter finding may suggest that their credit needs are not fully met by the CDFI loan. In the years after their CDFI loan, both types of owners see significant increases in the share that have a business credit record and score. Overall business debt levels also increase over the study period, and perhaps because of this, the share of microloan and small businesses with a 90-day delinquency on any business debt also rises.

There are several implications and points of deliberation that this research affords that can help CDFIs and their partners design more effective financial products and advisory services, or to better target them to groups or types of owners or firms. They include the following.

1. **Targeting:** The findings imply that CDFIs are generally able to identify borrowers who can benefit from their financing, but that is not true in all cases. It is worth considering how CDFIs can better target businesses and owners that are most likely to succeed and most in need of assistance (e.g. as measured by owner and business credit attributes). Linking long-term consumer and business credit data outcomes to firm and owner characteristics, as we have done here, will help with this effort. Such outcomes can be mapped back so that CDFIs and their partners can better understand the implications of credit decisioning for CDFI loans.
2. **Supports:** We did not have visibility into the supports borrowers received, but it would be possible to link long-term consumer and business credit outcomes to the type and level of support received. This can help inform if and how CDFIs are providing effective training and advice for business owners regarding consumer debt before they take out a business loan.
3. **Loan sizes and consumer credit needs:** A finding for both microloan and small business borrowers is that consumer credit increased in the period after the CDFI loan. This may imply that during the capital-intensive growth phase, owners need larger CDFI loans—and if they can't access them, they will use consumer credit. Conversely, it is possible that owners are responding to legitimate, increasing consumer debt needs rather than financing their business. Relevant questions then include whether CDFIs can provide more business capital, recognizing that owners may resort to using consumer credit anyway. And, conversely, are there any consumer debt products needed as companion products with business loans? Can CDFIs do

more to help business owners manage consumer debt? What level of consumer debt and consumer delinquency is acceptable versus concerning from a business-outcome perspective after taking out a loan?

4. **Progressing in business finance:** A significant share of CDFI borrowers are able to establish business credit records and scores, but not all. And only some borrowers are able to access other business loans. A question then for CDFIs is how they can best help firms establish business credit records and then use these records to progress to other business capital products.

Zooming out, while this research focused solely on CDFI borrowers, we believe it provides rich insights into the interplay between business and consumer credit needs and outcomes. These insights are relevant for a broad swath of businesses, lenders, policymakers, and philanthropic partners. Further research can continue to contribute to the understanding of how, where, and when business ownership leads to financial gains for owners. In this way, we hope that the key outcomes of interest for small business loan and assistance programs do not simply pertain to the firm, but also to how owners fare, for example, by making use of novel merged consumer and business credit outcome data. More of this work can be done at a predictive level to model individual firm and owner conditions and outcomes, identifying both likely beneficiaries and those who could be harmed. Finally, further attention is needed to understand outcomes related to owners' and businesses' assets and revenues, which our data lacked, and nonfinancial outcomes like health, well-being, and community benefit.

Notes

- ¹ Authors' analysis of Survey of Consumer Finance 2022 data.
- ² "Table 7. Survival of Private Sector Establishments by Opening Year," US Bureau of Labor Statistics, updated October 26, 2022, https://www.bls.gov/bdm/us_age_naics_00_table7.txt.
- ³ Bipartisan Policy Center. 2022. "Small Business Financing Before, During and After the Pandemic." <https://bipartisanpolicy.org/explainer/small-business-financing/>.
- ⁴ De Zeeuw and Barkley. 2019. "Mind the Gap: Minority-Owned Small Businesses' Financing Experiences in 2018." Federal Reserve Board of Governors Consumer and Community Context newsletter, November 2019, Vol 1 No. 2.
- ⁵ Bank of America 2019 Women Business Owner Spotlight, https://slochamber.org/wp-content/uploads/2019/10/2019_Women_Business_Owner_Spotlight.pdf.
- ⁶ Andrew F. Haughwout, Donghoon Lee, Joelle Scally, and Wilbert van der Klaauw, "Small Business Owners Turn to Personal Credit," Federal Reserve Bank of New York Liberty Street Economics, May, 19, 2021, <https://libertystreeteconomics.newyorkfed.org/2021/05/small-business-owners-turn-to-personal-credit-.html>.
- ⁷ Authors' analysis of CDFI Fund Annual Certification Report (ACR) data for 2016–20.
- ⁸ We assume equal ownership share for the purpose of calculations involving these businesses.
- ⁹ For the US, less than 1 percent of employer-firm owners are American Indian, Alaska Native, Native Hawaiian, or Pacific Islander; 2 percent are Black; 7 percent are Hispanic/Latino; 11 percent are Asian; and 80 are White. See Theodos et al. 2024.
- ¹⁰ For the US, 22 percent of employer firm owners are female, 14 percent are equally male and female owned, and 63 percent of employer firm owners are male.
- ¹¹ VantageScore is a consumer credit metric that aggregates data collected by the three national credit bureaus. It reflects the general risk of repayment for an individual consumer borrower.
- ¹² For longitudinal analyses of business credit data throughout the report, we limit the sample to businesses with records available for all years in a given period. We do so to avoid biasing later years with businesses that are subsequently scored and may differ in composition.

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