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The COVID-19 Pandemic's Effect on Small-Business Credit in Washington, DC

Firms' Revenues and Delinquencies and What Has Kept Them Afloat

Brett Theodos, Eric Hangen, Jorge González-Hermoso, Benny Docter, and Christopher Davis

DC TRENDS

At its peak, DC reported **46 new daily COVID-19 cases per 100,000 people**. The peak rate for the US overall was 76 per 100,000.

Consumer spending in DC decreased 51 percent at its lowest point from prepandemic levels. Spending for the whole US decreased 33 percent at the lowest point.

The employment rate in DC decreased 12 percent at its lowest point from prepandemic levels. For the US, the decrease was 23 percent at the lowest point.

At the height of pandemic restrictions, DC residents **spent 31 percent less time outside of their homes** compared with prepandemic levels. For the US, that share was 24 percent.

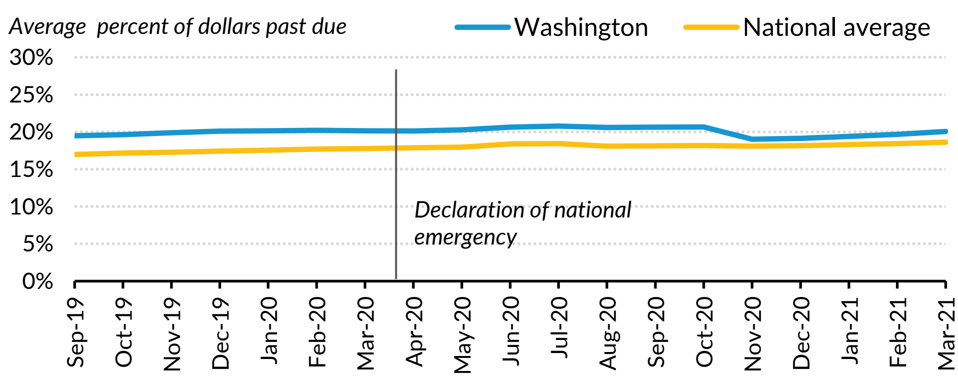
During the COVID-19 pandemic, small businesses in DC experienced closures and drops in sales, but despite these challenges, data from September 2019 to March 2021 reveal they were mostly able to pay their bills. Even in vulnerable sectors, delinquencies, defaults, and bankruptcies did not dramatically increase. Largely, these businesses remained afloat through federal stimulus payments, lay-offs or other cost-cutting measures, and forbearance from creditors. But preexisting inequities in business health for owners of color **have continued through and will outlast** the pandemic.

SMALL BUSINESSES KEPT UP WITH FINANCIAL OBLIGATIONS

Although DC had a higher average share of past-due debt than the US overall, data show that the percentage of payments that were slow or missed only increased slightly after the start of the COVID-19 pandemic. The rate of slow or missed payments varies across sectors, but the pandemic did not significantly affect those trends. Bankruptcies in the city have also remained relatively stable at around 0.6 percent.

FIGURE 1

DC Businesses Didn't Experience a Dramatic Rise in Delinquency during the COVID-19 Pandemic



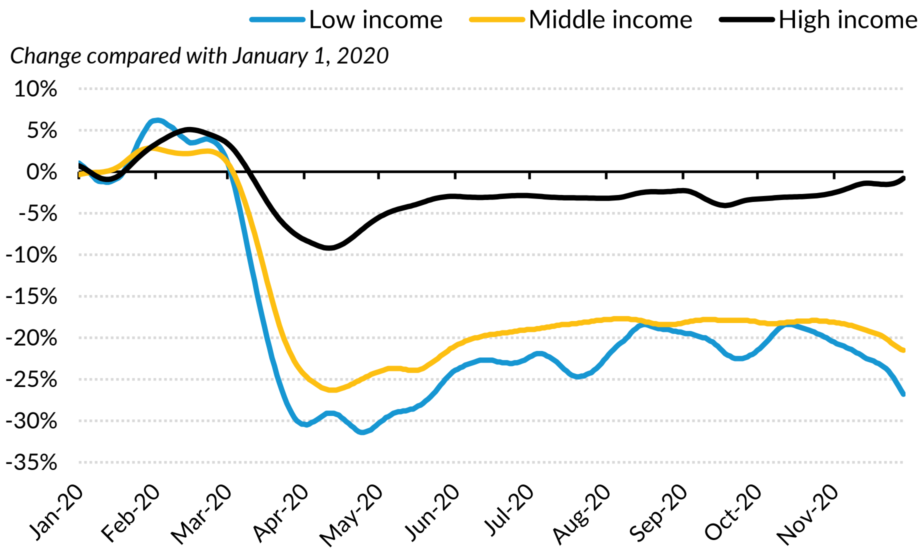
Source: Dun & Bradstreet.

Notes: The share of business payments past due refers to the ratio of dollars that are past due compared with the total dollars owed by the company that month. The city average is calculated by giving each firm in DC equal weight. A similar process is used for the national average, but national averages use weights to correct for oversamples in national data.

Stimulus support, cost-cutting measures, and forbearance helped keep small businesses afloat. By the point of full disbursal, DC received approximately 51,782 per small-business employee in Paycheck Protection Program funding, more than the national average of $33,619. These federal funds presumably helped many businesses retain employees. According to the Bureau of Labor Statistics, employment in DC remains 6 percent lower than in February 2020, just before the pandemic began. Cutting payroll has helped small-business owners keep paying the bills, but low-wage earners, who are more likely to be people of color, have been the most adversely affected.

FIGURE 2

Employment Levels in DC by Wage (2020)



Source: Raj Chetty, John N. Friedman, Nathaniel Hendren, Michael Stepner, and the Opportunity Insights Team, "The Economic Impacts of COVID-19: Evidence from a New Public Database Built Using Private Sector Data" (Cambridge, MA: National Bureau of Economic Research, 2020).
Notes: Low income is defined as the bottom quartile of the income distribution (approximately under $27,000), middle income as the middle two quartiles (approximately $27,000 to $60,000), and high income as the top quartile (approximately over $60,000).

ABOUT THE CREDIT DATA

This fact sheet uses data from **Dun & Bradstreet** on 1 million businesses with at least three business payments to vendors or creditors due per month, tracked longitudinally over 19 months (September 2019 to March 2021). We track 10,252 businesses in the District of Columbia.

THREE ACTIONS WASHINGTON, DC POLICYMAKERS CAN TAKE

Support community development financial institutions to help vulnerable businesses. Once the Paycheck Protection Program expires, DC can partner with community development financial institutions to provide financing support to businesses, or consider funding such institutions to buy down interest rates or pair grants with loans to help impacted businesses stabilize and regrow.

Invest in targeted, culturally relevant technical assistance for small-business owners. DC can look for ways to further support owners of color and help very small–business owners tackle systemic inequities and specific challenges in access to capital, support networks, resources, and clients.

Balance small-business supports with help for unemployed workers. In addition to assisting small businesses, DC can target workers who have lost jobs or income, connecting them with opportunities and programs to help make ends meet. This assistance is especially important for low-wage workers in highly affected sectors such as food and lodging, arts, and personal services.

This fact sheet was corrected on June 18, 2021, to fix an error in the About the Credit Data box.

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