

March 2025

Strength in Numbers: Driving Latino Small Business Growth through Federal Investments and the SBA's commitment to Latino Entrepreneurship

By **Uriel A. Lopez Gonzalez** CHCI-Public Policy Fellow

Executive Summary

In 1954, the Small Business Administration (SBA) was created to provide access to capital for federally backed loans to small businesses, disaster relief and help small businesses compete for government contracts. The agency would also educate small business owners with management and business training.[1] The SBA's legacy has been to provide access to capital for scalable growth and advance competition in the marketplace. The SBA provides three lending options for potential beneficiaries, their signature 7(a) loan program, the Certified Development Companies (CDC)/504 loan program that provides a long-term, fixed rate financing up to \$5 million for major assets. Last, their Micro-loan program which provides up to \$50,000 for small businesses. The base requirements for potential beneficiaries of SBA loans are:

- The business must be for profit
- The business must operate in the U.S.
- Each business owner must have invested personal equity in the business.
- Must have exhausted other conventional loan options, and must show they could not secure financing from private lenders without the SBA's backing.

SBA loans require a minimum credit score of 670, and the small business must meet SBA size standards for employment and annual revenue.[2] SBA loans have given generations of entrepreneurs the ability to scale growth in their venture without the continuous exhaustion of private lending and deficit spending. SBA loans are a federal government - private sector partnership that grants the ability for innovation and scalable growth through investing in the American entrepreneurial sector. This issue brief will focus on the Latino small business boom through the executive agency's investment into new and existing Latino-owned business since fiscal year 2021. With recommendations to the new SBA administrator on how they can continue to scale the growth of Latino entrepreneurship, and educate Latino communities on the benefits of a federally guaranteed business loan.

Federal investment towards the upward mobility of Latino entrepreneurship is not only obtained through the access to the needed capital to grow, but it's also about encouraging the entrepreneurial spirit in underserved Latino communities through education about how to launch a venture. This issue brief will break down the Small Business Administration's record of investment in Latino business in the

last four years while also examining two additional federal agencies, the U.S. Department of Commerce and the U.S. Department of Treasury. The grants, programs, and mission-driven financing provided through these three agencies have worked to promote the development of minority business enterprises. With a new administration in office, it is more important than ever to understand the agency programs that have contributed to an unparalleled growth of Latino Entrepreneurship. Becoming a beneficiary of an SBA backed loan can be a daunting and lengthy process for business owners who will have to exhaust every other avenue for capital before being considered for direct SBA lending.

Problem Analysis

The U.S. Department of Commerce's Commitment to Foundational Business Education

The United States Department of Commerce knows that there is untapped potential throughout the country, in recent data provided by the Economic Development Administration stated that in FY23 "Hispanic-owned employer firms account for over 40 percent of all minority-owned employer businesses in the United States, contribute over \$400 billion in U.S. economic output annually, and produce almost 3 million jobs per year." [3]

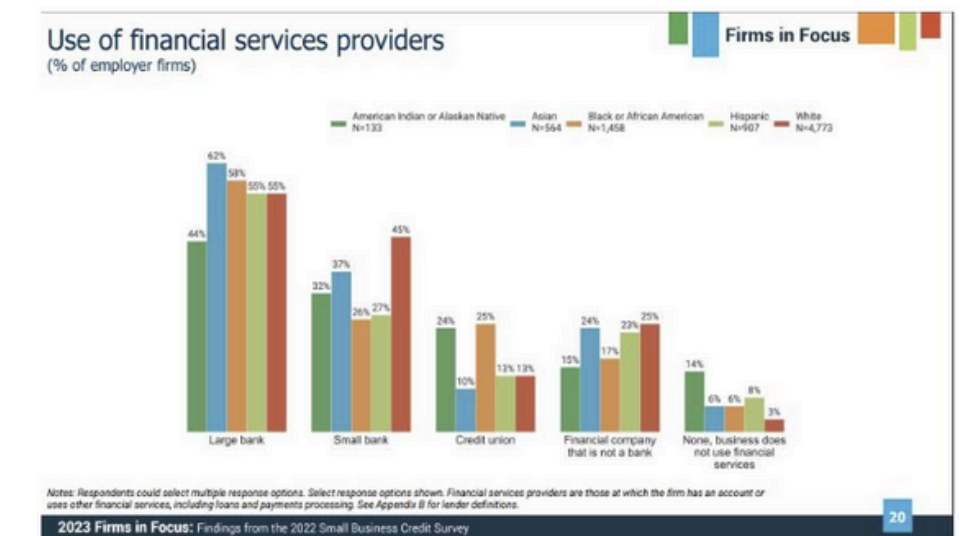
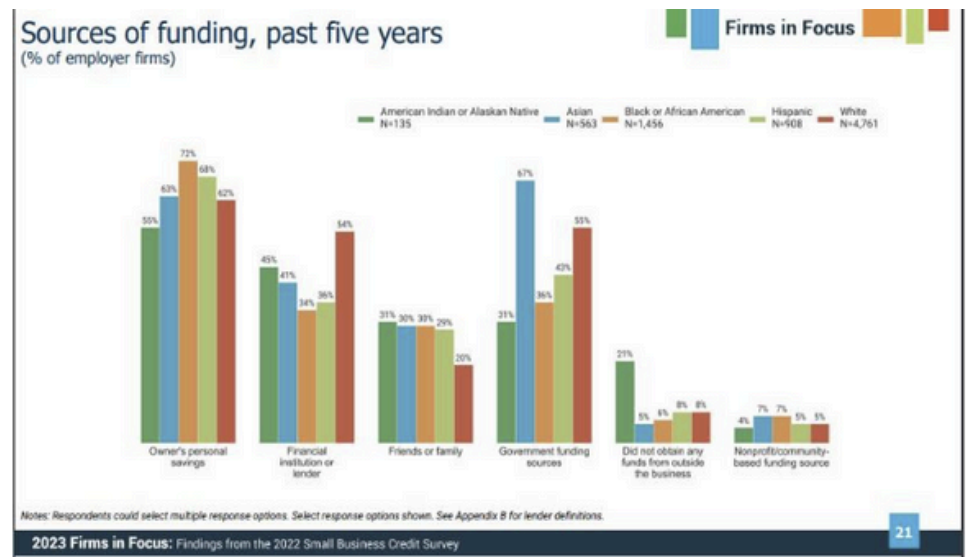
There is no question about the measurable growth that Latinos have made in creating business, innovation and as drivers in the entrepreneurial economy. The question arises: What changes in recent years have contributed to this rapid growth? Providing clear data on the effectiveness of these federal initiatives encourages continued investment into our Latino-owned firms.

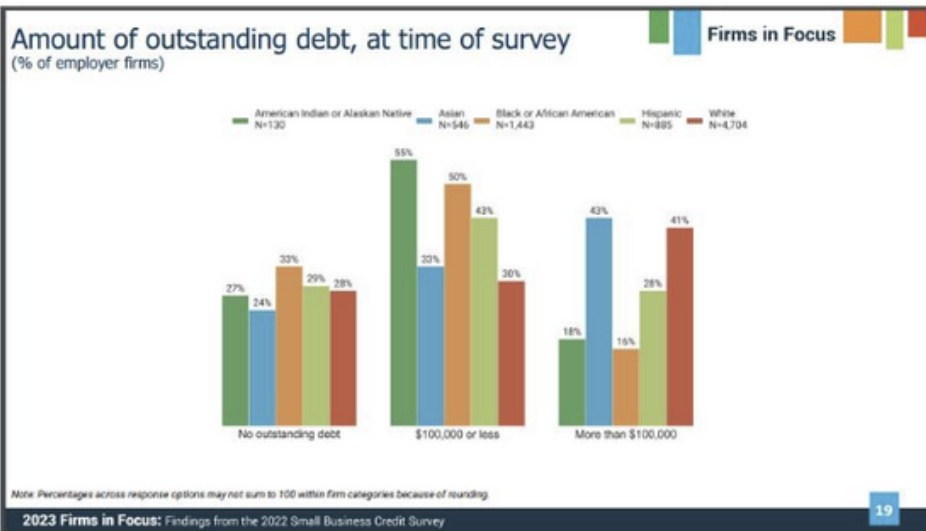
Before a small Latino business aiming to scale can set their eyes on an SBA loan, they must first become established, be operational, show a for-profit business plan and display a willingness by the ownership to leverage other business lending options. This presents some of the greatest challenges that are detrimental to a great deal of new Latino business administrators. High interest bank loans are some of the most sought after lending options by those just starting up. They can be traditional bank loans, business lines of credit, or come from a credit union; with all three presenting risk and high interest in the principle. Latinos face a lower percentage of acceptance into these financing options, with only 38% of Latino applicants being fully approved in 2022.[4] The Federal Reserve Banks published a 2023 small business credit chart book where they surveyed firms with fewer than 500 employees and at least one employee besides the owner. The findings show that 36% of Latino firms are reliant on financial institutions for their funding, and 68% are reliant on personal savings as capital for their business. 43% of Latino owners leverage capital through government funding, such as SBA loans. When looking at this data, it is important to take into consideration the financial provider that Latino business owners go with for private lending.

Large banks make up 55% of the financial service providers for Hispanics, and only 13% are using credit unions who have lower interest in their principal amount. [5]

Access to capital is by far the most daunting challenge Latino entrepreneurs have to overcome with resources to mitigate risk and debt to their venture. In order to get capital sourcing, education and training are necessary to support Latino business owners. The Department of Commerce's Minority Business Development Agency (MBDA) provides resources currently through business centers, grant programs and incubators to provide training, education, and legal resources to

get business ideas into founding stages. The Business Centers in 40 out of the 50 states provide services tailored to the needs such as consulting to assist with initial filing procedures, legal and compliance structuring of the business entity and market analysis such as unique value propositions (UVP) for competition. These centers also provide help for industry tailored training and access to networking opportunities with potential clients or consumers. Most importantly, connection to lenders, investors, and financial institutions. The federal government funds these business centers and dedicates them to





helping minority-owned businesses succeed.[6]

For Latino owned business industries such as manufacturing, exporting, technology, energy, and healthcare, the MBDA has specialty centers specifically tailored for these industries. Resources include market and international trade research strategies, legal guidance on understanding federal regulations and procurement procedures for international trade or manufacturing. Most importantly, these specialty centers provide industry leaders the guidance to become competitive in government contracting through proposal preparation and contraction negotiation training. [7]

The MBDA provides grant programs towards businesses who are showing growth, which is an essential step to a successful Latino owned small business towards securing an SBA loan. The Department of Commerce has shown their commitment to Latino owned businesses through private-public sector partnerships that provided greater access to the most sought after resources in business.

The U.S. Department of the Treasury’s CDFI Loan Initiatives
The decision to become a business

owner comes with a higher level of risk than the likelihood of success. Entrepreneurial Latinos are everywhere in the country and in every industry but represented at a higher capacity in certain industries compared to others. The brief has covered two major factors and challenges to the foundation of a small business; the initial startup, education, and training alongside capital access and capital management. The Department of the Treasury offers perhaps one of the most beneficial alternatives to lending prior to an SBA loan. The Treasury funds Community Development Financial Institutions (CDFIs) which “serves mission-driven financial institutions that take a market-based approach to supporting economically disadvantaged communities.” The agency encourages mission-driven organizations to apply for CDFI Certification and take part in CDFI Fund programs that inject new capital into neighborhoods lacking access to financing.[8]

CDFI loans present the best option available specifically for Latino owned businesses that are looking to scale growth through their business’s seed stage, early stage, or during their expansion stage. According to Florida International University’s Business School, “in a July 2023 report by the CDFI Fund

of the fiscal year of 2021, the CDFI loan interest rates varied anywhere from 4% to 9%, depending on what kind of loan you were after.” [9]

The examination of CDFI loans presents a clear separation from business credit cards, which carry up to an average of 13% to 25% APR and term loans that range from 6% to 30% interest depending on the loan term. When making the argument towards the growth and expansion of Latino owned business, it is critical to examine the risk associated with access to capital. The conversation can continue to be about providing access to every business venture or idea, but if the education to the correct capital and mitigation of risk is unavailable, then there is a disservice to the communities we are trying to mobilize. Being able to mitigate total risk and manage a debt schedule when starting a small business is critical, especially during the business’s early stage, where the foundation is fragile. A debt schedule and the correct capital lending can be the determining factor to see a business thrive and innovate into sustainable growth and eventually reach the potential of an SBA loan. Latino entrepreneurship has become a driving force in our country’s economy, but there is still work left to be done. Strengthening federal agency programs that promote equity and opportunity for Latino entrepreneurs is essential, alongside developing innovative strategies for how federal agencies can empower the next generation of Latino business leaders through private partnerships.

Small Business Administration’s Commitment to Latino Small Business Since FY21:

Under the leadership of the outgoing SBA Administrator Isabel Guzman, the Small Business Administration announced in Fiscal Year 2023 a record setting \$3

billion in SBA-backed loans to Latino-Owned small businesses. Data showing that total loans for the signature 7(a) and 504 programs reached only 5,638 in FY17, compared to a record-setting 7,746 SBA-backed loans in FY23. The SBA's 2024 Capital Report for FY24 demonstrates the culmination of these efforts, reporting that SBA-backed lending to Latino-owned businesses reached 9,613 loans and generated a total capital value of \$3.3 billion.[10]

In order for public-private investment to be effective, there needs to be an action on the private sector's end to show that any form of public investment will be a net positive. Investment towards Latino-owned business has proven to deliver results for both the ownership, their customers and their consumers, and their employees. The SBA from FY21 to FY24 has delivered their commitment to Latino stakeholders in the free market and the data shows their effectiveness.

Conclusion and Policy Recommendations

With a new administration and shifting agency priorities, several key recommendations can help increase accountability and prevent fraudulent lending while remaining focused on expanding access to capital - particularly for the growing latino population in this country. A recommendation to be wary in undermining access to underserved markets as "DEI initiatives" because if there is one sector of society where success is measured, typically off performance and merit its market-based business ventures. Latinos have proven to be effective with federal investment in the last four fiscal years. It is important to continue to scale growth, promote innovation and empower our Latino owned business sectors.

SBA 7(a) & 504 Loans to Latino-owned businesses	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Total loans	5,638	5,587	5,245	3,877	5,191	5,712	7,746
Dollars (millions)	\$1,695	\$1,809	\$1,844	\$1,643	\$2,811	\$2,591	\$3,006
Share (% of loans)	8.2%	8.4%	9.0%	7.8%	8.4%	10.0%	12.2%

For administrative recommendations, this policy brief suggests that the new administrator cut regulations on direct loans provided. For example, a Congressional Research Service Report from 2023 stated the following about the SBA: "Congress and SBA can provide incentives to increase access to loan and equity business finance for disadvantaged entrepreneurs and underserved markets. For example, the 79(a) and 504 programs have used fee waivers - lowering the lender's costs of making those loans relative to other loans for certain disadvantaged entrepreneurs - statutory authorization for a fee waiver exists in the 7(a) program for certain loans to veterans." [11]

The U.S. Latino Population has reached over 64 million, and accounts for 20% of the U.S. population. Let's work forward on federal incentives and investments

that provide capital for an overall net benefit for the economy, GDP, workforce development, and create jobs domestically. Latino entrepreneurs are the leadership for innovation and the potential for the titans of the new business era.

Endnotes

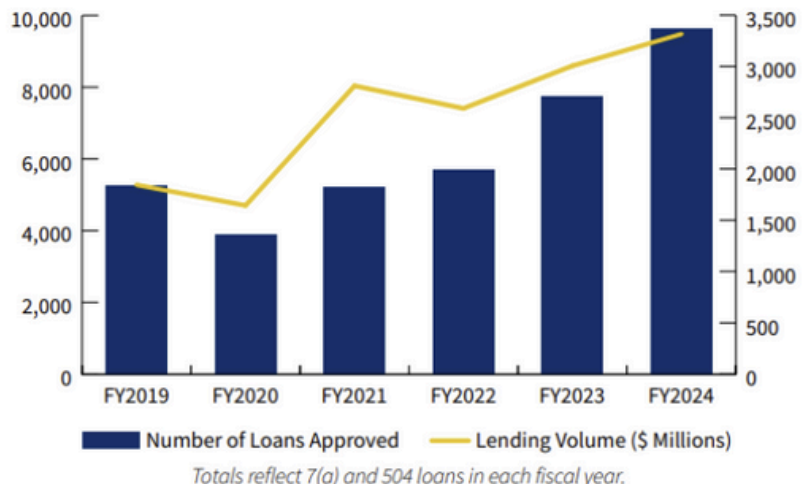
[1] U.S. Small Business Administration. (2023, September 11). Celebrating 70 years of service to America's small businesses. [sba.gov](https://www.sba.gov).

<https://www.sba.gov/about-sba/organization/observances/celebrating-70-years-service-americas-small-businesses>

[2] Bankrate. (2024, January 18). SBA vs. conventional loan: What you need to know. Bankrate.com. <https://www.bankrate.com/loans/small-business/sba-loan-vs-conventional-bank-loan/>

[3] U.S. Economic Development Administration. (2023, September 27). EDA Celebrates National

Figure 4. SBA Lending to Latino-Owned Businesses



Hispanic Heritage Month. EDA.com.
[https://www.eda.gov/news/blog/2023/09/27/eda-celebrates-](https://www.eda.gov/news/blog/2023/09/27/eda-celebrates-national-hispanic-heritage-month)

[national-hispanic-heritage-month](https://www.eda.gov/news/blog/2023/09/27/eda-celebrates-national-hispanic-heritage-month)

[4] Bank Rate. (2023, November 29). Hispanic Small Business Owners Statistics. Bankrate.com.

[https://www.bankrate.com/loans/s](https://www.bankrate.com/loans/small-business/hispanic-small-business-owner-statistics/)

[mall-business/hispanic-small-business-owner-statistics/](https://www.bankrate.com/loans/small-business/hispanic-small-business-owner-statistics/)

[5] Federal Reserve Banks. (2023, May). 2023 Report on Employer Firms: Findings from the 2022 Small Business Credit Survey. Fedsmallbusiness.org.

<https://doi.org/10.55350/sbcs-20230308>

[6] Minority Business Development Agency. Minority Business Enterprise Resources: Access the tools to elevate your business. MBDA.gov.

<https://www.mbda.gov/business-resources>

[7] Minority Business Development Agency. Minority Business Enterprise Resources: Access the tools to elevate your business. MBDA.gov.

<https://www.mbda.gov/business-resources>

[8] U.S. Department of The Treasury. CDFI Fund Releases: CDFI Certification Application & Related Tools. cdfifund.gov.

<https://www.cdfifund.gov/>

[9] Florida International University Business. CDFI Loan: Is it the right fit for you? business.fiu.edu.

<https://business.fiu.edu/academics/graduate/insights/posts/cdfi-loan-is-it-the-right-fit-for-you.html#:~:text=In%20a%20July%202023%20report,of%20loan%20you%20were%20after.>

[10] U.S. Small Business Administration. SBA 2024 Capital Impact Report: New SBA small business financings top 100,000 for first time in 16 years, capital impact rises to \$56 billion. sba.gov.

<https://www.sba.gov/document/report-sba-2024-capital-impact-report>

[11] Congressional Research Service. Small Business Administration Reauthorization: Issues for Congress. crsreports.congress.gov.

<https://crsreports.congress.gov/product/pdf/R/R47953/2>