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## Addressing Barriers to Latino Business Growth and Wealth Equity

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### Executive Summary

Today Latinos make up nearly 20% of the United States population.[1] Latino-owned businesses contribute \$800 billion annually and employ over 3 million people. [2] Despite this impact, Latinos hold only a sliver of the country's wealth, forming a significant barrier to starting small businesses. Furthermore, disparities in loan approvals are stark: Latino-owned businesses are significantly less likely to receive funding from national banks, even when credit risk and liquidity profiles are similar to their White counterparts and they are also less likely to receive loans from the government. To address these inequities, strategies such as expanding access to SBA loans, increasing venture capital investments, and supporting alternative financing options like CDFIs are critical. Additionally, practical steps like registering businesses as LLCs or highlighting strong credit scores could improve loan approval rates and the perception from banks that Latino applicants are fiscally literate and financially responsible. Without continued support, these challenges may exacerbate wealth inequality, limiting the long-term economic potential of one of the nation's fastest-growing populations.

### Background

According to a recent report by the

Center on Budget and Policy Priorities, the combined wealth of all minority households accounts for only 14% of the country's wealth.[3]

Additionally, statistics show ownership of employer firms (businesses employing more than one person in addition to the owner) by Hispanics only account for 8%.[5] These businesses are important drivers of wealth and can provide one important explanation as to why the second largest racial-ethnic group in the country continues to have a disproportionately small share of the nation's wealth.

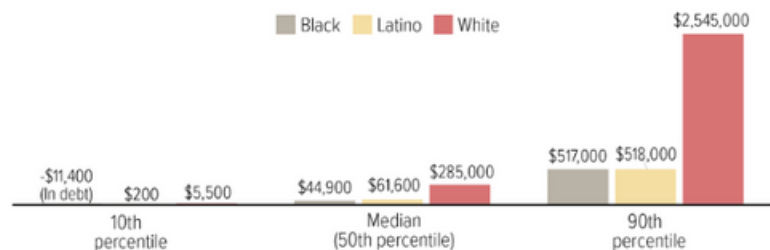
With the Latino population projected to account for 29% of the US population by 2030, it is important to ensure then that the wealth equity does not continue to worsen and that more

opportunities for Latino-owned business are made available. A report developed under a contract with the Small Business Administration, Office of Advocacy found that the largest factor holding back business ownership among immigrant Latinos is the lack of wealth.[6] This is particularly concerning given the fact that a whopping 70% of the initial funding for Latino-owned business comes from personal savings. In other words, even though Latinos struggle to gather the capital needed to become entrepreneurs, they overwhelmingly rely on personal funds to innovate—a concerning contradiction.

One possible solution to spur more Latino businesses is to increase loan availability to the Latino community. However, loan approval ratings continue to be problematic for the Latino

### Wealth Highly Concentrated By Race

Household net worth by race and ethnicity, 2022



Notes: The 10th percentile is the median household of the least wealthy one-fifth of households (ranked within racial or ethnic group). The 90th percentile is the median household of the wealthiest one-fifth of households. Figures are rounded to nearest \$100 for the 10th percentile and overall median and \$1,000 for the 90th percentile.

Sources: Federal Reserve Board (for overall medians) and CBPP analysis of 2022 SCF.

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

Source: Center on Budget and Policy Priorities, *A Guide to Statistics on Historical Trends in Income Inequality, 2024* <sup>4</sup>

population with a McKinsey report that analyzed firms with annual revenues over \$1 million who were requesting similar-size loans finding that “29% of Latino-owned businesses got the loans vs. 76% of White-owned businesses. Even after controlling for business performance measures, the odds of loan approval from national banks were 60% lower for Latino-owned businesses.” Therefore, although the number of Latino businesses has been growing in the United States, ensuring their continued success and continuing to increase their rise in numbers continues to be a cause for concern.

**Problem Analysis**

**Why Loans Are Important**

New small business owners commonly require loans to overcome short-term financial challenges that hinder long term growth. Loans, therefore, are an option, typically provided through banks, credit unions, and online lenders, to be used for the financing of new equipment/inventory, expanding operations, or hiring new staff. In other words, if a small business owner is looking to start or expand a business, loans are necessary. However, recent data shows that Latinos face uphill battles to secure these necessary lines of credit threatening the long term economic prosperity of one of the country’s fastest growing ethnic groups. This is ironic given the fact that Latinos overwhelmingly rely on self funding to start and fund businesses with the Stanford Business School estimating that just 6% of the funds used to start a business comes from commercial loans as opposed to the 70% coming from personal savings.

One important note when discussing the topic of Latinos and loans is that this is not a community that doesn’t understand the

importance of loans in expanding business operations, instead the opposite seems to be the case. The most recent small business credit survey conducted by the largest federal reserve banks across the country found that the reason 58% of Latino loans applicants applied was to expand business operations. [7] Thus, the will on behalf of the Latino community is there, it is then the approval process that proves to be the larger hurdle.

**Difficulty Obtaining a Loan:**

According to the Stanford Business Schools Latino Entrepreneurship Initiative[8], Latino-owned businesses are significantly less likely to receive loan approval from national banks than their white counterparts. In fact, according to a 2021 survey by the Stanford Latino Entrepreneurship Initiative: 20% of Latino-owned businesses that applied to national banks for loans over \$100,000 received funding, compared with 50% of White-owned businesses”. Unfortunately, this approval rating trend only worsens even when the business in question reports annual revenues over \$1 million.

One possible explanation for this discrepancy is that Latino applicants tend to have a lower credit score, with banks seeking to approve FICO scores of 720 or

more. Additionally, in a study conducted by the Small Business Finance Fund, bankers who were interviewed recalled that common obstacles to providing financing to Latino entrepreneurs include “incomplete business records and inadequate documentation”.[10] A problem then also seems to be that there exists a gap in the technical knowledge necessary for Latino entrepreneurs to convey their viability to banking institutions. An example of a technical gap can be found in the simple act of filing a business as an LLC, which the American Marketing Association found was an issue for Latino businesses looking to increase their chances of approval. Additionally, a 2023 financial literacy survey report by the Teachers Insurance and Annuity Association of America (TIAA) that asked adults 28 questions to assess financial literacy found that, on average, Hispanics correctly answered only 38% of the TIAA Institute-GFLEC Personal Finance Index questions compared with 50% among all adults.[11]

These findings raise concerns given the fact that loans are the most popular business funding method by small business owners,[12] meaning that the most common way to grow business is inaccessible. Many of these small businesses do not



Source: The Stanford Latino Entrepreneurship Initiative, *The 2020 State of Latino Entrepreneurship report was produced, 2020*<sup>9</sup>

have the financial resources to fund expansion and limiting the means for Latinos to access these resources can limit their economic potential. Furthermore, the same Stanford report mentioned earlier was conducted with Latino and white businesses that had similar profiles in terms of credit risk and liquidity. The study did not conclude why the discrepancy in approval ratings was but it did mention that another major difference between the White and Latino community was pre existing and strong banking relationships. Having a banker guide an application though the process of applying for a small business loan can be incredibly consequential. The study also found that, Latino businesses that were part of formal business organizations were more likely to get approved. A common thread then, and potential answer to why Latinos struggle so much with loan approvals, seems to be the importance of networking and relationship building that the Latino business community still lags behind in.

Meanwhile, Latino-owned businesses received roughly only 1% of all investments from top venture capital and private equity firms in the past decade according to a report by Bain & Company.[13] These trends shed light onto why Latinos are predisposed to self funding as the numbers of outside funding are limited and imply a bias on the behalf of lenders.[14] The realization of this unfair treatment of Latino applications can be reflected in the same Federal Reserve Bank survey mentioned above, which found that 24% of Latino respondents listed being discouraged as a top reason they had not applied for credit in the last 12 months (compared to the 5% of white respondents). Another option that is important to look at as a path to a more equitable economy is government loans.

However, there remains issues with access to government funding as well.

### SBA Loans - Government Loans as an Option

A U.S. Small Business Administration (SBA) 7(a) loan is considered the agency's flagship government loan program and includes several financing options. The popular program offers loans up to \$5 million that business owners can use to cover everything from working capital and inventory costs to real estate purchases and construction of a new building. Forbes analyzed the most recent SBA 7(a) summary report for FY2022 and analyzed demographic trends in 7(a) loan disbursement based on race, and found that white business owners have received the largest share of 7(a) loan dollars (42.4% of the approved loan amount).[5] On the other hand, Hispanic borrowers trailed far behind, securing only 7.2% of the 7(a) loan disbursements (despite an increase in loans distributed). [15]

However, in 2023, the SBA backed more than 7,700 SBA loans to Latino-owned small businesses which is double the number of Fiscal Year 2020. Total loan dollars (\$3.0 billion) are up nearly \$1.4 billion since the start of the Biden-Harris Administration,[17] while the Latino share of the SBA's lending portfolio rose from under 8 percent to over 12 percent marking a reversal in stagnating statistics around SBA loans given to Latinos.

### Growing the Latino Economic Power

Latino-owned businesses are vital to the U.S. economy, contributing \$800 billion annually, employing 3 million people, and paying over \$124.4 billion in annual payroll.[19] Latinos are highly entrepreneurial, starting businesses at three times the rate of the general population[20], yet they face significant barriers, including limited access to capital in both the public and private loaning realm. These challenges hinder wealth generation and economic mobility, widening the

#### SBA 7(a) Loan Distribution by Race/Ethnicity

Data Source: U.S. Small Business Administration

Race/Ethnicity	Percentage of Total Loans	Percentage of Total Loan Dollars	Average Loan Size
American Indian or Alaska Native	0.8%	0.7%	\$502,052
Asian	11.8%	20.6%	\$945,840
Black or African American	7.2%	3.9%	\$289,558
Hispanic	10.1%	7.2%	\$383,027
White	51.0%	42.4%	\$447,900
Race Not Specified	19.2%	25.2%	\$708,294

Source: Forbes Advisor • Embed

Forbes ADVISOR

Source: Forbes Magazine, Small Business Loan Statistics and Trends 2025, 2024<sup>16</sup>

SBA 7(a) and 504 Loans to Latino-owned businesses	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023 (YTD)
Total loans	5,638	5,587	5,245	3,877	5,191	5,712	7,332
Dollars (millions)	\$1,695	\$1,809	\$1,844	\$1,643	\$2,811	\$2,591	\$2,813
Share (% of loans)	8.2%	8.4%	9.0%	7.8%	8.4%	10.0%	12.2%

Source: US Small Business Administration, Press Release 23-79, 2023<sup>18</sup>

racial wealth gap. Addressing these issues through current loan programs like the SBA's existing 7(a) loans is critical to addressing them. First, funding could be set aside to support Latino-owned businesses and entrepreneurs, reducing their personal financial burden and helping them grow their businesses. For example, JPMorgan Chase committed \$350 million to provide low-cost loans and equity investments to Black, Latino, women, and other underserved entrepreneurs.[21] Beyond traditional banks, other sources of capital, from angel investors, venture capital and private equity, to community development financial institutions (CDFIs), could focus more attention on Latino-owned businesses. However, as important as it is to set aside money for this community, just as important is also ensuring that there is a higher degree of technical knowledge. Banks could begin working with Latino populations to better understand key parts of loan applications and work with them on credit coaching, an area Latinos' struggle in. A great example of this is Wells Fargo who has hosted a series of "Sabor y Sabiduría: Flavorful Lessons in Financial Literacy", a cooking session paired with financial literacy lessons that was aimed at Latinos in New York City.[22] This could also include banks becoming more aware or perhaps even becoming more amenable to the unique credit, collateral, and cash flow situation of Latino entrepreneurs who mostly self-finance and are credit-averse.

Furthermore, equitable access to government and private funding could be ensured through practices performed on behalf of the Latino community themselves. Interestingly, the findings from the American Marketing Association pointed to managerial and policy

implications to mitigate racial discrimination. For example, one specific step small business owners can do that is recommended by the paper is spend the \$45 to register their company as an LLC, which potential lenders see as an outside indicator of sophistication. The study's findings also suggest minority business owners with high FICO scores should be sure to make that clear up front when they are seeking a loan. Without continued support given to the Latino community, challenges faced by small businesses may intensify, limiting Latino representation in critical sectors and further widening the racial wealth gap.

### Conclusion

The barriers that Latino entrepreneurs face in accessing capital are not just obstacles to their individual business success, but threats to the economic advancement of an entire community that plays an essential role in the nation's future economic prosperity. Therefore, it is in the best interest of the country to dismantle any existing financial barriers that impede the entrepreneurial potential of a group that will account for nearly thirty percent of the country's population by the end of the decade. There are many options to do this including eliminating disparities in loan approvals and increasing access to government funding. In making an effort then to rectify these problems and expanding initiatives such as the SBA loan programs, the foundation can be laid for the Latino community to thrive, better ensuring that all Americans-regardless of race-can contribute to building a better tomorrow.

### Endnotes

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