ONE SYSTEM, (UN)EQUAL ACCESS
How the financial system fails Black-owned businesses and how that might change. PAGES 7-24
The percentage drop in SBA 7(a) loans to Black-owned businesses since 2007

What's being done about it?
Not nearly enough.

ABOUT THIS PROJECT
This special edition is the second installment in a series identifying the challenges, opportunities and systemic disparities small-business owners face in accessing capital, with particular emphasis on the period since the Covid-19 pandemic ensued. In this issue, we offer a first-of-its-kind analysis of lending data that highlights long-standing and worsening inequalities for Black business owners and the broader effects those gaps pose when it comes to wealth creation and economic development.
ONE SYSTEM,  (UN)EQUAL ACCESS

The nation’s decadelong economic expansion saw bank deposits more than double and commercial lending explode. During the same stretch, lending to Black-owned businesses cratered.

BY MATTHEW KISH AND MALIA SPENCER  •  THE BUSINESS JOURNALS

The annual number of Small Business Administration loans to Black businesses decreased 84% since peaking before the 2008 financial crisis, according to an examination by The Business Journals of lending data for the agency’s flagship 7(a) program.

The decrease came despite 48% growth in the economy, a 101% increase in bank deposits and an 82% jump in commercial loans. The decline also corresponded with a 53% decline in all 7(a) loans awarded.

Access to capital for Black businesses appears to have worsened since, compounding the economic fallout from Covid-19.

A Stanford University study of the pandemic’s effects found 41% of Black businesses ceased operations as of April, compared with 17% of white businesses. Relief measures have lagged: A review by The New York Times of a key Covid-relief program, the federal Paycheck Protection Program, showed 75% of the government’s initial round of emergency loans went to businesses in majority-white census tracts.

Tracking small-business lending by race is difficult; banks are prohibited from collecting demographic information about small-business borrowers. To better understand the challenges Black-owned small businesses face in accessing capital, The Business Journals analyzed two data sources, starting with U.S. Small Business Administration loan data, the only data that provides demographic information about borrowers. Second, The Business Journals, with the help of Portland State University’s Population Research Center, analyzed the demographics of census-tract level small-business loan data made public under the Community Reinvestment Act.

The reporting shows significant lending disparities.

For example, The Business Journals found white neighborhoods receive roughly twice as much per person in small-business loans compared with Black neighborhoods. Likewise, majority-white neighborhoods, on average, receive roughly twice as many small-business loans per capita.

Economic experts say the trends exacerbate racial disparities in wealth generation, homeownership rates, educational attainment and other vital rungs on the American dream’s financial ladder.

“I don’t think most Americans understand the severity of the problem,” said Orv Kimbro, CEO of Midwest BankCentre, a community bank in St. Louis. “I call it corporate redlining.”

Among the findings from The Business Journals’ analysis:

- The country’s four biggest banks, which hold roughly 35% of the nation’s deposits, made 91% fewer 7(a) loans to Black-owned businesses in 2019 than in 2007. Citibank made two in 2019, Bank of America made seven, JPMorgan Chase made 62, and Wells Fargo made 263.
- By comparison, those same banks originated at least 5,285 7(a) loans to all businesses during the SBA’s fiscal 2019.

Banks say creditworthy borrowers can get loans and cited numerous new and existing programs as proof of their commitment to fund Black businesses. They also say that comparing SBA 7(a) loan volumes to 2007 is “cherry-picking” because that year marks the height of reckless lending on Wall Street.

Critics say those responses miss the point. Banks benefit from deposit insurance and creditworthiness is a convenience. The SBA is supposed to be a safety net for small business that needs a helping hand.

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Hayes was turned down by three banks, including a large regional bank where she had a business account. The rejection she heard most often was that the bank didn’t lend to consumer product companies.

“I felt like my husband and I had the resources. We have the pedigree. For it to be so hard for us, I wonder how hard it is for other people who aren’t in the same position we are in,” she said.

Hayes needed a loan for equipment and working capital for larger manufacturing runs. None of the banks would do both.

Hayes said bankers suggested she turn to family and friends for capital, a common avenue for entrepreneurs, but one that’s not as

$275,000 loan for her company, Hue Noir. Founded in 2009, the Portland, Oregon, company makes cosmetics for women of color. Hue Noir had a loyal following, built over years of selling foundation, lipstick, eye shadow and other products at trade shows and makeup parties. She and her husband, both Black, said at the time they had strong credit scores, owned a home and had assets they were willing to use as collateral.

“We checked off all the boxes,” said Hayes, who previously worked as a product development chemist. And yet, “I still felt like it wasn’t enough.”

It wasn’t.

Paula Hayes felt confident in seeking a $275,000 loan for her company, Hue Noir. Founded in 2009, the Portland, Oregon, company makes cosmetics for women of color. Hue Noir had a loyal following, built over years of selling foundation, lipstick, eye shadow and other products at trade shows and makeup parties. She and her husband, both Black, said at the time they had strong credit scores, owned a home and had assets they were willing to use as collateral.

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POST-RECESSION DEPRESSION IN LENDING TO BLACK-OWNED BUSINESSES

While the Small Business Administration’s flagship 7(a) program saw its loan originations fall by more than half following the 2008-2009 recession, the drop in loans to Black-owned businesses during that span was more extreme and corresponded with a decadelong economic expansion in the United States. Between 2008 and 2019, U.S. bank deposits more than doubled, helping fuel a boom in commercial lending to business borrowers. SBA 7(a) loans to Black-owned businesses, however, fell from more than 12,300 just before the recession to fewer than 2,000 in 2019.

Available to many Black business owners. Black household wealth in America is roughly one-tenth white household wealth. The Black homeownership rate is roughly 30 percentage points lower than the white homeownership rate.

Recent research shows the worse outcomes for Black borrowers aren’t simply explained away by less collateral. A July SBA Office of Advocacy study, which used Federal Reserve data and adjusted for credit risk, showed Black-owned businesses faced “the biggest challenges in obtaining their desired financing.” The study cited nine academic papers that came to the same basic conclusion.

Black founders, including Hayes, often rely on a patchwork of alternatives for financing from microlenders, nonprofits or private capital funds focused on people of color. Those resources are limited and usually invest smaller amounts of capital than commercial loans. That can stifle growth.

“Our journey has been a lot slower than I would have initially anticipated,” Hayes said.

In 2014, a year and three denials after her search commenced, Hayes landed a $150,000 equipment loan from Portland-based Albina Community Bank, now part of Beneficial State Bank, based in Oakland, California. For working capital, she and her husband tapped savings and invested six figures in the company.

Three years later, Hayes got a $25,000 loan from Micro Enterprise Services of Oregon, a Portland-based organization that lends to women and minority entrepreneurs. The money allowed her to attend a trade show in New York, where she landed Target as a customer.

That led to an additional $50,000 in venture capital from Elevate Capital in Portland. Hue Noir, which employs four, is now sold in Costco, Sally Beauty and about 10 national boutiques, as well as online.

Her loan from Albina has been paid back, and she said her loan from MESO will be paid off in months.

‘HARSHER ON BLACK COMMUNITIES’

The SBA’s 7(a) program, which guarantees as much as 90% of loans made by banks, doled out $23.2 billion in 2019, including $755 million to Black-owned businesses.

The program’s guarantee is designed to make small-business loans more palatable to banks, which often balk at companies that lack significant collateral.

Black businesses got 3% of 7(a) loan dollars in 2019. The SBA declined requests by The Business Journals to provide historical percentages of loan dollars that went to Black businesses. The Wall Street Journal previously reported 8% of SBA loan dollars in 2008 went to Black businesses. According to the U.S. Census Bureau, about 9.5% of U.S. businesses are Black-owned.

“The rationale and the reason for government involvement in any lending market is to produce a better outcome for those who are not able to access credit,” said Jesse Van Tol, CEO of the
CONTINUED FROM PAGE 9

National Community Reinvestment Coalition, an organization that works to build wealth in underserved communities. “Look at the history of SBA programs. They are set up to serve women and minorities. The SBA does have an obligation to address these kinds of disparities.”

In 2014, the National Association of Government Guaranteed Lenders commissioned a study of the decrease in SBA loans to Black businesses. American University researchers Derek Hyra and Meghan Doughty concluded several factors caused the collapse, including the impact of predatory lending on Black homeowners; smaller loan sizes sought by Black businesses when banks are increasingly lending larger amounts; and a decline in loans in low-income neighborhoods.

Hyra and Doughty made several recommendations, including reducing borrower fees and increasing guarantees. Hyra said the recommendations haven’t been adopted.

“We had one meeting at the (Obama) White House,” Hyra said. “I didn’t see any of the recommendations that we made take hold within the SBA. I don’t think things have changed much.”

The SBA did not respond to written questions about Hyra’s findings.

The SBA is the only public source for small-business loan data organized by race and gender.

To determine whether SBA 7(a) lending data is indicative of larger trends, The Business Journals worked with Portland State University to analyze small-business loan data collected through the Community Reinvestment Act. Passed in 1977, the CRA requires banks to disclose information about small-business loans. The data does not provide information about the race of borrowers, but it identifies the census tract where each loan is made.

The analysis showed small businesses in majority-Black census tracts have significantly less access to bank loans than businesses in majority-white tracts.

Small-business lending also falls as the percentage of Black residents increases. The 1,950 U.S. census tracts with at least 90% Black populations got $95 in small-business loans per person in 2018, compared with $234 in census tracts with at least 90% white populations or roughly $2.46 in white tracts for every $1 in Black tracts. In census tracts with a simple majority of white or Black residents, banks originated $1.93 in white tracts for every $1 in Black tracts.

“...it suggests that people are more willing to invest in white neighborhoods and white people. Capital markets are just harsher on Black communities,” said Andre Perry, a fellow at the Brookings Institution who studies wealth creation and race. “When you don’t invest, you get social problems, you get crime, less education, all of which reduces the chances of people climbing the social and economic ladder.”

‘JOB GROWTH AND ECONOMIC OPPORTUNITY’

Wells Fargo, Chase, Bank of America and Citibank, sometimes referred to as the “Big Four” because of their dominant market share, declined to make executives available for on-the-record interviews or provide details on SBA loan amounts to Black businesses since the 2008-2009 recession.

Similarly, the SBA declined to answer questions or agree to an interview. The agency has not responded to a recent Freedom of Information Act request seeking loan data, including dollar amounts and default rates, for Black-owned businesses since 2007.

The major banks appear to be aware of the lending disparities.

After a 2015 Gallup study of its support for minority-owned businesses, Wells Fargo launched a $75 million program that supported community organizations that lend to disadvantaged businesses. This year, the San Francisco bank announced a $17.4 million commitment to similar community organizations.

In a statement, the bank also said it is “intensifying our commitment to diverse businesses” and “enabling more than $1 billion in support.”

“Through these programs, we are working with an extensive ecosystem of partner organizations to identify additional ways we can help create greater access to capital, technical support and guidance, credit coaching and philanthropic aid,” the bank said in the statement.

New York-based Chase last week announced a $30 billion, five-year commitment to address the racial wealth gap that includes making 15,000 loans, for a total of $2 billion, to small businesses in majority-Black and majority-Latinx communities. That is in addition to an Entrepreneurs of Color fund that has made roughly $20 loans totaling more than $17 million since 2015.

“Supporting minority-owned businesses is one of the most effective ways we can drive job growth and economic opportunity in local communities,” the bank said in a statement.

Chase CEO Jamie Dimon, a leading voice on Wall Street, also is part of a new subcommittee of the influential Business Roundtable focused on racial equity and access to capital.

Charlotte, North Carolina-based Bank of America in early September announced details for a $1 billion, four-year commitment to racial equality. In a statement, the bank said 7(a) loans represent a “very small portion” of its small-business lending and it remains the “No. 1 lender to small businesses in the U.S.” It said half its small-business lending in 2019 was done in low- and moderate-income neighborhoods.

“This year, Bank of America made more (Paycheck Protection Program) loans to small businesses than any other lender, with 345,000 loans, and 44% of those went to low- and moderate-income areas or neighborhoods where most of the residents are people of color,” the bank said in a statement.

New York-based Citibank in September announced a $1 billion effort to address racial disparities. In a statement, the bank said small-business lending has not been its focus, though participation in PPP increased its SBA portfolio from $70 million to $3.5 billion. It said some of its PPP profits will be donated to support people of color and lower-income communities.

“Additionally, we have been expanding our efforts to serve minority-owned small businesses in several ways. Over the past several years, we have engaged with nonprofit partners on a national, multiyear effort aimed at preserving long-standing Black-owned or operated small businesses,” the bank said in a statement.

‘DATA IS POLICY’

Critics say collecting race information through the Community Reinvestment Act is similar to what’s required of mortgage borrowers by a separate federal law – is needed to address loan disparities for Black-owned businesses. And it might happen.

“There’s some systemic issues still – redlining (whether you) formally call it that or not,” the SBA said in a statement.

Ken Foreman, a San Francisco bank announced a $17.4 million commitment to similar community organizations.

The Dodd-Frank financial reform law, passed after the 2008 financial crisis, includes a provision – Section 1071 – empowering the Consumer Financial Protection Bureau to track the race and gender of small-business borrowers. The section has not been finalized.

“Data is policy,” said Paulina Gonzalez-Brito, executive director of the California Reinvestment Coalition. “Without the data, we can’t make changes within the financial institutions to create the kind of structural reforms ... that we need.”

Last year, Gonzalez-Brito’s group sued the CFPB for failing to implement Section 1071. The lawsuit is pending, but the CFPB has begun the rule-making process, releasing an outline for data collection. The public has until Dec. 14 to comment.

During the reporting for this story, Chase said it’s in favor of collecting demographic data about small-business borrowers. Bank of America, Citibank and Wells Fargo declined to comment on Section 1071.

Regulatory changes aside, businesses can
make a difference, said Bynum, who chaired the Treasury Department’s Community Development Advisory Board and the CFPB Consumer Advisory Board.

“The business community needs to be the adult in the room, and when Congress and the administration fail to act, businesses are more likely to recognize it is in their long-term interest to have an economy where everyone can thrive and more people can buy their products and services,” he said.

Bynum pointed to a decision this year by Netflix Inc. to deposit $10 million in HOPE Community Credit Union as part of the streaming service’s $100 million initiative to invest in Black communities.

“More companies need to do that,” he said. “It is critical that institutions have strong balance sheets that allow them to play the critical role that they play in communities.”

Meanwhile, in St. Louis, Midwest Bank-Centre’s Kimbrough said his bank has worked with academic researchers, hired more Black bankers, opened branches in disadvantaged neighborhoods and explored small-business loan syndication to improve access to capital for Black-owned businesses.

“That social compact we forget,” Kimbrough said. “When you are bestowed the privileges that the banking industry has been bestowed, you have a responsibility to the general public. Period. I don’t compromise on that.”

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<th>Hispanic</th>
<th>White</th>
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<td>Personal financial statements</td>
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3% Share of SBA loan dollars awarded to Black businesses last year. About 9.5% of U.S. businesses are Black owned.
DOLLAR DISLOCATION, BY NEIGHBORHOOD

The Business Journals analyzed small-business loan data submitted by banks in approximately 73,000 designated neighborhoods defined by the U.S. Census Bureau to identify how the flow of capital varies, depending on an area’s demographic profile. The effort looked at business loans originated in 2018 with a total dollar value of less than $100,000 – the largest segment of business lending and a key pipeline for capital among small, privately owned businesses. The Business Journals then calculated loan totals and dollars deployed in majority Black and majority white census tracts.

Nationally, the numbers favored white tracts by roughly a two-to-one ratio, with twice as many loans originated per capita and double the dollars deployed per capita. That disconnect grew more extreme as the demographic makeup of each census tract grew more concentrated. For instance, loan recipients within 90% white tracts received $2.46 in business loans of less than $100,000 per dollar value of less than $100,000 — loans originated in 2018 with a total per capita. And double the dollars deployed per capita. That disconnect grew more extreme as the demographic makeup of each census tract grew more concentrated. For instance, loan recipients within 90% white tracts received $2.46 in business loans of less than $100,000 per resident for every $1 loan per resident in 90% Black tracts.

ST. LOUIS METRO AREA BREAKDOWN

This map and the accompanying table below offer a detailed summary of small-business lending totals in 2018 among the 10-largest majority-white and majority-Black census tracts in the St. Louis metropolitan statistical area.

SOURCE: U.S. Census Bureau; U.S Department of the Treasury

MAJORITY-BLACK TRACTS IN ST. LOUIS MSA

The metropolitan statistical area’s 10-largest tracts, ranked by population

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<th>TRACT INFORMATION</th>
<th>LOAN BREAKOUT</th>
<th>DEMOGRAPHIC BREAKDOWN</th>
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<td>White PCT</td>
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<td>Description</td>
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<tr>
<td>Population</td>
<td>Total Loans</td>
<td>Loan Amounts ('000s)</td>
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<td>53</td>
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<td>2106.00 Part of Bellefontaine Neighbors, St. Louis County</td>
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<td>2102.00 Glasgow Village, St. Louis County</td>
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<td>5023.00 Sauget, St. Clair County, Ill.</td>
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<td>2108.05 South of Black Jack, north of Castle Point, St. Louis County</td>
<td>6,364</td>
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<td>6,111</td>
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<td>TOTALS</td>
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### MAJORITY-WHITE TRACTS IN ST. LOUIS MSA

The metropolitan area's 10-largest tracts, ranked by population

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<tr>
<th>Tract</th>
<th>Description</th>
<th>Population</th>
<th>Total Loans</th>
<th>Loan Amounts ('000s)</th>
<th>Residents per loan</th>
<th>Loan Dollars per Capita</th>
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<td>12,720</td>
<td>136</td>
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<td>$116.75</td>
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<td>$137.00</td>
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<td>East of Troy, Lincoln County</td>
<td>10,149</td>
<td>98</td>
<td>$1,065</td>
<td>103.6</td>
<td>$104.94</td>
<td>93.8%</td>
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<td>193</td>
<td>$2,728</td>
<td>49.9</td>
<td>$283.22</td>
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<td>163</td>
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<td>$230.91</td>
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<td>Troy, Lincoln County</td>
<td>9,138</td>
<td>114</td>
<td>$1,297</td>
<td>80.2</td>
<td>$141.93</td>
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<td>Fenton, St. Louis County</td>
<td>8,870</td>
<td>136</td>
<td>$1,748</td>
<td>65.2</td>
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<td>Villa Ridge/Gray Summit, Franklin County</td>
<td>8,584</td>
<td>178</td>
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<td>$284.60</td>
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<td>9</td>
<td>De Soto/Hillsboro, Jefferson County</td>
<td>8,574</td>
<td>118</td>
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<td>72.7</td>
<td>$166.55</td>
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<td>8,490</td>
<td>88</td>
<td>$872</td>
<td>96.5</td>
<td>$102.71</td>
<td>96.6%</td>
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Since 2008, Rochelle Bea’s Beginning Futures Learning Center has been a beacon of hope and stability in the distressed north city neighborhood of Walnut Park.

The center serves infants through 5-year-olds and is an after-school program for elementary-school children. It has grown from about 30 children to 75 after several renovations and expansions at its building over the past decade.

But those successes haven’t come without challenges. Bea, the center’s founder and owner along with sister Shirla Lomax, said it’s been a struggle obtaining financing from traditional institutions over the years. Whether it be for emergency building renovations or planned expansions, banks have turned her away or simply stopped communicating.

While she’s procured small loans from St. Louis-based not-for-profit micro-lender Justine Petersen Housing and Reinvestment Corp., those funds are just stopgaps to help keep Beginning Futures in operation. To finance growth, she’s forced to look for alternatives.

In February, Bea said she reached out to her bank for a $200,000 loan to finance a 2,000-square-foot expansion of Beginning Futures’ building, located at 4981 Trush Ave. Beyond the initial meeting, the bank did not move forward with an application, she said. “The conversation just stopped. We were constantly emailing but there was no traction,” Bea said. “They didn’t even want to waste their time with an application, and that’s crazy because they have been my bank the entire time we’ve been in business.”

Bea said discussions about her assets never came up, and she still has questions about the lending process. “What are the loan requirements? I thought my credit or collateral were part of the decision. And we have more than $200,000 in collateral,” she said.

Despite the obstacles, Bea has persevered with the help of Justine Petersen, which approved $10,000 in funding earlier this year for Beginning Futures through the New Markets Tax Credit program. The funding went toward building upkeep and other business necessities, Bea said.

Yet Beginning Futures is still trying to find capital for its original expansion plans without the help of traditional banks.

Bea said she and several members on her staff are working to obtain teaching certifications so that they can increase their chances for grant funds.

With more funding, Bea is planning to add another classroom and gymnasium so that children can get exercise even in inclement weather.
Ozella Foster-Robinson, a 70-year-old Black funeral director with a dream that remained unfulfilled for years because of her inability to get a bank loan.

Foster-Robinson has been in the funeral industry for 39 years and has long wanted to replace the 2,000 square feet of space she leases for her business, Foster’s Services for Funerals, in the basement of St. Luke Memorial Baptist Church north of Grand Center at 3623 Finney Ave.

Her dream was a new, larger funeral home in the historically Black Ville neighborhood, where she grew up.

“African Americans attend more funerals than our Caucasian friends, so you need seating capacity and comfort,” she said. A 10,000-square-foot funeral home would ensure people no longer have to stand against the walls in the church basement, she said.

“My children and I agreed we wanted to remain a staple in the city with our business,” Foster-Robinson said. “I grew up in the 3800 block of St. Ferdinand Ave. I and all my kids attended Vashon High School. Our roots began in this community.”

She began seeking a loan of $1 million or more about six years ago. She applied at six banks and was rejected each time.

“I believe that the mainstream lenders are programmed to work in a very systemic manner when it comes to financing commercial real estate,” she said. “I tend to think of them as too sophisticated. The sophisticated bank representatives do not hold much interest in who you are or what you are striving to accomplish. So, I think the so-called mainstream banks saw me as an African American female with project and a determination to stay—a Black woman who refused to leave the community.”

As for the reasons she was given when she was rejected: “They’d look at the numbers, and I guess they didn’t think I have enough gas flow,” she said. “So much of what I do is outsourced, and the banks, perhaps, don’t understand the death profession,” especially in the Black community.

In addition, the number of funerals she conducts can vary widely from year to year—190 one year, 300 the next. She often works with people who are not financially prepared for an unexpected death. “Often a funeral is the largest expense after a house, car and taxes. You work with them, and ask them what they can afford, and you adjust the type of merchandise.”

Foster-Robinson doesn’t discount the possibility that her timing was off. “Sometimes you can start a project too soon,” she said. “Maybe I didn’t have the business established long enough in my name.” Though she has worked in the industry since 1982 and became a funeral director in 1985, she didn’t start her own funeral home until 2008.

Eventually she succeeded in getting a construction loan, and relationships she formed in north St. Louis were key.

“By the grace of God, two ministers introduced me to Hope Jones-Fisher, owner of Hope Jones & Associates,” Foster-Robinson said. “She is a strong, experienced African American businesswoman who assists churches, commercial borrowers and business owners to find funding to support their proposed projects.”

Two years ago, the two women met with Alex Fennoy, executive vice president of community and economic development at Midwest BankCentre. “We talked about the project, and why I wanted to be in that neighborhood,” Foster-Robinson said. “Ms. Hope helped me understand what banks are looking for, and what we could produce that they wanted.”

Midwest BankCentre, the fifth-largest St. Louis bank, with more than $2.3 billion in assets as of June 30, has committed to lending in low-income neighborhoods under Chairman Orv Kimbrough and his predecessor, Jim Watson. It has opened branches in Pagedale and at Friendly Temple in the Wells-Goodfellow neighborhood, both poor areas.

Foster-Robinson secured a loan with Midwest and the Small Business Administration (SBA) for a new, 10,000-square-foot funeral home in the Ville. She is currently in negotiations for the land and for negotiations with a minority-owned contractor in St. Louis. She hopes to open in the fall of 2021.

Under the loan terms, during construction, Midwest BankCentre will finance 90% of the loan, or $900,000, with the remainder provided by the borrower. Once construction is completed, the SBA will take $400,000 in a bond and the bank continues with a $500,000 loan.

“It means a lot. I’m going to be able to serve the community and be there for them in the dark hours,” she said. “And I can leave a legacy for my four daughters and son.”
elton Slay had paid off all his creditors, but there wasn’t much left. Slay’s wife, Stephanie, who helps run the couple’s plumbing business, told him: “Don’t spend any money. Don’t spend a dime.”

The gas tank in Slay’s truck was empty. But, rather than swiping a card at the pump — and following his wife’s instructions — he looked to retrieve some cash stashed away in a filing cabinet long ago.

The incident wasn’t an isolated one, according to the owners of Slay Plumbing, a 23-year-old business run from the couple’s home in the West End neighborhood, which sits north of Delmar Boulevard and largely east of Skinker. “Any money that you have coming in, especially with a minority firm, once that money hits the books, it’s already gone,” Slay said.

One reason is that Slay Plumbing, which does work for rehabs and new construction, has largely been on its own since launching. That means no traditional bank loans. The company previously did significant work in commercial buildings. The problem, though, is that it must have up-front cash to buy materials for those jobs.

And, when Slay Plumbing was part of a union its 20 workers would require payment each week. Plus union assessments. Plus taxes. It all added up to tens of thousands of dollars. Meanwhile, jobs could take months, and payment comes at the end.

Slay credits a general contractor, Frank Hassy, with helping the business then. Hassy said he’d pay Slay in advance — essentially acting as Slay’s banker. That was necessary, Slay said, because banks regularly turned him down for financing.

Sure, Slay Plumbing applied for a loan when its books were in bad shape. But it also did so once that was “cleaned up,” Slay said. The answer was always the same. Often, no reason for denial was given.

“I believe they had no interest in loaning money to a small independent because the amount they could get back was not great enough. We didn’t have enough assets to seize,” Slay said. “And I also believe it’s because we’re African American. In particular, banks around here have no interest in helping African American business survive and flow and make it.”

Now, Slay gets financing through a construction loan fund of Justine Petersen Housing and Reinvestment Corp., a nonprofit that connects low- and moderate-income individuals with institutional resources. It’s secured about $600,000 in financing through Justine Petersen to date.

That has helped, Slay said, though the business now employs just him and a helper, and focuses on smaller projects.
WHEN CREDIT ISN’T ENOUGH

Despite double-digit growth, Abra McField struggled to get loans – until she met a banker who shared her skin color

BY LEA KONCZAL | PHOTOGRAPHY BY DILIP VISHWANAT

Abra McField couldn’t understand it. She had good credit, a flourishing business and a bachelor’s degree from a major university. Yet, in years of applying for bank loans to expand her hair salon, she got nothing but denials.

“They just would not give me any support. Nothing,” McField said. “I was so discouraged at one point.”

That’s not how McField wanted to feel when she founded her company, Abra Kadabra Hair & Healing, in 2012. Although she held a bachelor’s degree in interdisciplinary studies and pre-law from the University of Missouri – Columbia, she decided to open a salon to pursue her lifelong passion for hair.

“At first I was in love with just making women feel beautiful and making their life easier, because hair, especially for African American women, is very stressful,” she said.

Then McField learned about traction alopecia, a type of hair loss common among Black women due to high-tension styles like braids, wigs and weaves. She retooled her salon to focus on hair growth. In addition to using styling methods designed to minimize hair stress, Abra Kadabra provides sew-in hair growth treatments. McField said the salon’s revenue has grown by 30% to 40% annually for the last four years.

With that growth, McField sought loans for a bigger building. But banks kept closing the door. In one instance, she applied for a business credit card from the bank where Abra Kadabra kept its savings. No luck. A few years later, she tried again.

“I actually worked my butt off to make sure that I had the revenue; I had the credit,” McField said. “I went back ready to go.”

The result?

“They didn’t even say that I was denied,” she said. “They just completely ignored the application. I asked, ‘Well, can you dig into it for me to see why? Do they have an answer?’

And it was like, ‘Oh, I don’t have access’ … they just didn’t even want to give me the time of day.”

Unable to access traditional lines of credit, McField took out loans from online lenders Kabbage and LoanMe from 2014 to 2015. But with interest rates in the 30% to 40% range, McField spent so much energy keeping up with payments that she couldn’t focus on growing her business.

“I was working so much, and so stressed out trying to make the monthly payments … it literally almost killed me,” she said. “My immune system failed so much that I got pneumonia, flu and tonsillitis all at the same time.”

In 2016, McField began to turn a corner when one of her clients offered to invest in Abra Kadabra. That investment was just $2,500, but it helped with inventory. From 2016 to 2019, five clients have invested in Abra Kadabra – $2,500 here, $5,000 there, $10,000 there. McField has paid off all but one of the investments with interest.

Her luck turned further in 2019, when she landed a $20,000 line of credit from U.S. Bank.

“It was actually an African American woman in the business department who really fought for me,” she said. “Which makes me think – is it because of my race that I’ve had problems? And why is it that an African American woman in the business department had to do so much, to really push, to get me the funding that I needed?”

Armed with that capital, McField finally felt ready to lease a 4,000-square-foot building next to Abra Kadabra’s current 1,300-square-foot space. She plans to expand into the new building within the next three months. With two buildings now in play, McField will expand the salon’s hair loss clinic, add a shopping area to sell Abra Kadabra’s retail products, and add more inventory space for e-commerce.

Although Covid-19 regulations have limited the salon’s capacity, McField said demand remains strong and she is optimistic about the future. She applied for a federal Paycheck Protection Program loan through local nonprofit Justine Petersen Housing and Reinvestment Corp., and got $12,000 from the government. But she’s most grateful to the individuals who have helped her throughout her financing journey – the woman who fought for her at U.S. Bank, and the clients who invested in her when no one else would.

“It actually brings me to tears a little bit, just thinking about the support I had from clients,” she said. “That’s who believed in me – five African American women who were a part of my business, who actually stepped up and said ‘I’ll be an investor.’”
Here’s a look at how Abra McField made use of her $20,000 U.S. Bank line of credit.

**WHERE THE MONEY WENT**

| 10% Marketing to improve e-commerce sales |
| 15 New scheduling and client coordinating system |
| 25 Not yet spent |
| 50 Inventory |

**BY THE NUMBERS**

5 Number of times McField applied for a traditional loan.

4 Number of times McField was turned down.

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Despite Covid-19 regulations that have limited the salon’s capacity, Abra McField’s Abra Kadabra Hair & Healing has strong sales.
THE SECRET RECIPE

It took years for Freddie Lee’s Gourmet Sauces to find the right financial mix to obtain a loan

BY LEA KONCZAL | PHOTOGRAPHY BY DILIP VISHWANAT

Freddie Lee James’ neighborhood has been both a blessing and a curse.

On the one hand, it inspired the name of his successful sauce brand. On the other, it hindered his company’s attempts to get loans for expansion.

James’ story has been one of hard-earned success dogged by years of financing struggles. It began in 1986, when he started making a tangy, barbecue-style sauce and sharing it with friends and co-workers. One hot day, Freddie Lee and his wife Deborah were cooking a pot of sauce in the kitchen. They went out on the porch of their North St. Louis neighborhood to cool off.

“A few minutes we were sitting down, and then a police chase,” Freddie Lee said. “I looked at the wife and I said, ‘Maybe one day God going to bless us to get out of the ghetto.’” She just looked at me and said, “Yeah.” And then she came back and said, “You know what, you oughta name your sauce Ghetto Sauce.”

But after thinking and praying about it, the Jameses decided the name Ghetto Sauce felt right. They began selling Freddie Lee’s Ghetto Sauce at farmers’ markets and flea markets. They eventually incorporated a company, Freddie Lee’s Gourmet Sauces, and the sauce soon found its way onto grocery store shelves. It’s sold under two different names – the original Ghetto Sauce, and American Gourmet Sauce for retailers that prefer a different moniker. Today the sauce is sold not just in St. Louis, but also in select grocery stores in other states. Last year, Freddie Lee’s brought in about $100,000 in revenue.

That success, however, was dogged by a long struggle to get financing. After incorporating in 2010, the Jameses began applying for loans. At first, the rejections were understandable.

“A lot of people said that we didn’t have enough sales, and didn’t have enough revenue,” Deborah said. “Our business would have a loss sometimes.” Annual revenue was around $10,000 in 2011, later increasing to $30,000. The Jameses had good credit, but it was also hard to get loans because of the nature of their business. “Everybody made sauce, and there was no guarantee that your sauce was going to turn the profit that they needed for you to pay back your loan,” Deborah said.

But as the years went on and Freddie Lee’s got more established, the denials became frustrating. One bank asked the Jameses to document 10 years of back taxes – both business and personal returns. That wasn’t all.

“I guess once they found out that we were Black, they asked for our ZIP code,” Freddie Lee said. “They found out where we were living – that really sealed the deal. They didn’t want to be bothered with that. Because our ZIP code is, you know – we’re in the hood. We live in the ghetto.”

The Jameses cobbled together funding from other sources. They borrowed money from Freddie Lee’s brother, which they have since repaid. They took out money from an online lender, but nearly buckled under the sky-high interest rates. By the time they paid it back, the couple had poured almost all their savings into the business.

“We had almost tapped out the money we had saved – we were on a shoestring budget, truly,” said Freddie Lee.

After someone told them about local nonprofit Justine Petersen Housing and Reinvestment Corp., they applied for and received a $1,000 micro-loan. The Jameses paid it back, Justine Petersen gave them a new loan for $1,500, and the cycle continued.

The couple used their loans to buy supplies and inventory, and to finance travel costs and booth fees for festivals. Last year, another Justine Petersen loan enabled them to move into a commercial kitchen at the nonprofit’s new “Greencubator” on St. Louis’ north riverfront.

The Jameses also finally established a relationship with a local bank. Earlier this year, they received an $11,000 federal Paycheck Protection Program loan though Carrollton Bank. The loan helped them get through a slow period after the Covid-19 pandemic hit this spring, although business is now starting to rebound.

As for Freddie Lee’s long-ago hope that he and Deborah might one day leave the ghetto, that could happen soon. The Jameses are preparing to move to a new house in a nearby neighborhood, by O’Fallon Park.

“It’s an upgrade ghetto,” Freddie Lee said, laughing.
Freddie Lee James' Ghetto Sauce is sold in St. Louis stores and other grocers around the country. The company produced about $100,000 in revenue last year.

**TIMELINE**

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
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<tbody>
<tr>
<td>1986</td>
<td>Freddie Lee James starts making a special sauce out of his kitchen. He gives it away to family and friends, one of whom tells him he should start selling it.</td>
</tr>
<tr>
<td>2010</td>
<td>After years of selling Freddie Lee's Ghetto Sauce at events and farmers' markets as a hobby, Freddie Lee and his wife Deborah incorporate Freddie Lee's as a company. The business begins to seek loans for expansion.</td>
</tr>
<tr>
<td>2011</td>
<td>Freddie Lee travels to Augusta, Georgia, to sell at the annual Masters Golf Tournament. Arnold Palmer buys some Ghetto Sauce.</td>
</tr>
<tr>
<td>2017</td>
<td>Freddie Lee retires from his job in construction and is able to devote more time to the sauce business.</td>
</tr>
<tr>
<td>2019</td>
<td>With the help of nonprofit Justine Petersen, Freddie Lee's moves into a new commercial kitchen space on St. Louis' north riverfront. Annual sales total around $100,000, up from $10,000 in 2011.</td>
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Meetings stacked Cory Elliott’s day. In between appointments with clients, the CEO of CMT LLC, a roofing, abatement and demolition contractor based in Benton Park, also had a big meeting with a new banker.

She felt optimistic going into it. The banker had told her in a series of emails leading up to the day that her request was doable. He seemed more than willing to help grow her business.

One of her estimators joined her that day due to the packed schedule, and she ushered him in the office while she stopped at a restroom. As Elliott walked into the meeting, she saw the banker excitedly say to her estimator, a white man, “I’m so excited to meet you, Cory.”

The tone of the meeting changed after Elliott, an African American woman, corrected the banker, she said. No longer was he confident in the deal. Silence blanketed the room, and Elliott left with no deal.

“It shouldn’t be this hard eight years in,” Elliott said. “I should have four times the revenue, but I don’t because I don’t have access to capital to help me grow my company and invest in infrastructure.”

Elliott has two master’s degrees from Washington University and 17 years of experience working for SSM Health, where she managed multimillion-dollar budgets, hospital construction projects and oversaw hundreds of employees. She left her longtime career in health care management in 2012 to start CMT LLC.

Over the years, CMT has earned accolades from such organizations like St. Louis Lambert International Airport and Dartmouth’s Tuck School of Business. Yet, she looks at her competitors today and sees how privilege has widened the gap.

In CMT’s first three years of business, Elliott could not obtain a loan over $10,000 even though CMT made $645,000 in its first year. She needed to buy a $7,000 truck, but could only find one lender willing to secure a loan. It came with a caveat: one of her white, male business partners at the time had to provide a personal guarantee.

The lack of access to capital adds up. Operationally, it’s four times the expense to rent equipment than to own. A business can spend $28,000 on rental expenses when it costs $7,000 to $8,000 to purchase, Elliott said. But having no equipment that makes work be done faster and more efficiently means paying more labor costs.

One loan she did secure for her business was called due soon after being issued, leaving her with few options and a dent in her credit. The timing of it being two weeks before Christmas and Elliott being a single mother of four children was devastating.

She tried securing a loan through the federal Small Business Administration but was denied because of poor credit.

She had better luck with Justine Petersen Housing and Reinvestment Corp., a St. Louis-based lender to minority-owned businesses, who bought the note and offered Elliott rates between 8% and 12%. She took the deal, she said, because she has seen rates as high as 41% at other lenders.

As the contracting business grew, access to capital should have gotten easier. Instead, it got much harder.

**About CMT**

Owner and founder: Cory Elliott

What it does: Roofing, abatement and demolition contracting

Founded: 2012

Neighborhood: Benton Park West in St. Louis city

Employees: 35-40 employees in the field now, 5 in the office, 2 part-time employees

Revenue: Not disclosed

**By the Numbers**

- **8-12%**
  - Interest rates from St. Louis-based microlender Justine Petersen

- **41%**
  - Competitor’s interest rates

- **4%**
  - CMT bonding rate

- **1%**
  - CMT competitor’s bonding rate
Kimberly Brown didn't get a Paycheck Protection Program loan. She tried. Twice. She even went back and forth with one bank about her application.

Brown is the third-generation owner of Dean's Beauty Salon and Barber Shop, one of Oregon's oldest Black-owned businesses.

Her grandparents opened the business in 1956. For three generations, it's operated two blocks off Martin Luther King Jr. Boulevard in a neighborhood once home to the city of Albina, long the cultural center of Portland's Black community.

Brown's inability to access the federal government’s $659 billion relief program for small business isn't an outlier.

An analysis by Portland Business Journal parent company American City Business Journals of all 5.2 million Paycheck Protection Program loans shows businesses in neighborhoods of color got fewer loans and had delayed access to the program, despite language in the legislation that created the program that mandated priority access for underserved borrowers.
The Business Journals analysis shows 65% of the program's loan dollars went to majority-white neighborhoods, 5% went to majority-Black neighborhoods and 8% went to majority-Hispanic neighborhoods.

White neighborhoods got money faster. Majority-white neighborhoods got 83% of their loan dollars in the first month of the program, giving businesses in those areas a head start in the scramble to survive the pandemic. Black neighborhoods got 77% of their loan dollars in the program's first month. Hispanic neighborhoods got 74%.

A separate analysis, done by ComplianceTech at the request of the Portland Business Journal, shows East Portland – the most diverse area in Multnomah County – had the least access to the program.

The above map shows Multnomah County's census tracts. The shaded tracts had less access to PPP loans than the statewide average, according to the ComplianceTech analysis.

That analysis also shows only 1.1% of the state's more than $7 billion in PPP loan dollars went to census tracts defined as "distressed" by bank regulators. About 0.5% of Oregon loan dollars went to "remote rural" parts of the state.

ComplianceTech is the developer of LendingPatterns, an online tool used to analyze Home Mortgage Disclosure Act data.

"This was not an equitable distribution of emergency small-business funds," said Ramiro Cavazos, CEO of the U.S. Hispanic Chamber of Commerce.
American City Business Journals was one of 11 media organizations that sued the Small Business Administration in May for detailed information about the program, including the names and addresses of borrowers.

In early December, the SBA released the information, including dates of loans, amounts and names of lenders, enabling the analysis of where and when the money flowed.

Because the program did not collect complete information about the race or ethnicity of borrowers, the Business Journals determined the census tract for all 5.2 million loans using a geocoding service in order to analyze the demographics of neighborhoods that benefited from the massive relief program.

While many defend the Paycheck Protection Program for the billions of dollars it distributed in a short amount of time, critics say it's the latest example of the financial system's painful history of not equitably serving communities of color and proof that even during the racial reckoning in the wake of George Floyd's death — a moment that sparked multibillion-dollar racial justice commitments by the country’s biggest banks — Black and brown businesses continue to have inferior access to capital.

"At least 95% of the business owners I know — African American — none of them got any money," Brown said. "Maybe I filled out the paperwork wrong. I can't imagine all of us did."

Critics also note ironic comparisons to the nascent Covid vaccine program, which is taking steps to prioritize those most in need, such as health care providers and the elderly. The Paycheck Protection Program took no such steps. The money gushed to affluent areas, then trickled to poor areas and the vulnerable businesses most at risk.

Brown, 60, who considers herself a "child of the Civil Rights Movement," is frustrated with how the program unfolded. She only asked for $11,000, but the money would have prevented her from falling behind on her mortgage and emptying her personal savings.

"I don't understand how we're still at this place where we're still at the bottom of the barrel when something happens."
'It went to people that had more resources'


The design of the program was simple: Given the overwhelming need for financial relief, the U.S. Small Business Administration essentially deputized banks. Instead of processing loans at SBA headquarters, banks identified borrowers, processed applications and extended credit.

In the clamor to get money out the door, banks prioritized existing clients.

As one example, within two weeks, Morgan Stanley noted at least $243 million of the program’s initial $349 billion in loans went to public companies that had access to other financing options. (Some of them have since returned the funds.)

"They were the ones that had access to capital elsewhere and didn't need the loans," Cavazos said. "They gobbled up all that first round. It went to people that had more resources that were ready and that had relationships and needed no introductions."

That also meant businesses of color, which have fewer relationships with banks, ended up at the back of the line. Eighty-six percent of white adults are fully banked, according to the Federal Reserve, significantly higher than Black adults (54%) and Hispanic adults (68%)

"It was difficult for most Black people to apply for a PPP loan when they didn't have a relationship with a bank," said Ron Busby, CEO of U.S. Black Chambers Inc.

Busby noted the lack of banking relationships stems from the financial industry's history of racial discrimination.

In October, the Portland Business Journal reported on the 84% decrease in SBA 7(a) loans to Black businesses since the 2008 financial crisis. The report also showed majority-white neighborhoods average roughly twice as much in small-business loans, per capita, as majority-Black neighborhoods.
Because the Paycheck Protection Program offered payroll relief, Busby said it also wasn't a good fit for many Black businesses.

"The majority of Black firms...are sole employers," Busby said.

Busby and Cavazos noted businesses of color also tended to seek smaller loans – many around $5,000 – putting them at a disadvantage in the first round when banks rushed to served the biggest customers.

Asiyah Rose - Luxury Candles is one of those businesses. Founder Rosemary Egbe, who also freelances as an accountant, applied for a PPP loan through an online platform. She was asked to re-supply financial documents. She did. But said she still didn't get a loan.

On a recent rain-soaked Sunday, Egbe staffed a pop-up shop in the Pearl District.

Ironically, while Egbe couldn't get a PPP loan, customers lined up to buy her products in a census tract that received 461 PPP loans, second in Portland only behind the downtown business core, which received 980.

Although Egbe didn't get a PPP loan, she said her business continues to grow. She expects to hire her first employee in 2021. She's also managed to get her products on the shelves of several local stores, including Green Door and Event Cosmetics. She continues selling at various pop-up shops and markets.

"Everyone around me believes in me," she said. "I've been very fortunate."

Busby said many Black businesses haven't been as fortunate. He cited a Stanford study that showed 41%, or roughly 441,000 Black businesses, closed by April 18, roughly two weeks after the Paycheck Protection Program started.

Busby said the customers of those business have likely gone elsewhere for services now.

"Not only did you lose those businesses, but you lost that revenue from the communities those businesses supported and served," he said. "Those dollars will never come back."
'Dangling by their fingertips'

The second round of the Paycheck Protection Program opened on April 27. By then, many businesses of color were "dangling by their fingertips," Cavazos said.

Many had missed mortgage and utility payments. Credit scores had been damaged.

But the second wave of the program offered more help. Unlike the first round, it set aside $60 billion for small lenders and community development financial institutions, or CDFIs. CDFIs are known for their work with disadvantaged communities.

"They played a huge role (in getting PPP money out)," Busby said. "There was a large percentage of our members that ended up getting funding from CDFIs that couldn't get funds from traditional banks."

Galen Gondolfi is a senior loan counselor for St. Louis-based Justine Petersen, a community development financial institution known for its work with communities of color. The organization made 436 PPP loans, for a total of $14.8 million, with 74% of loans going to businesses of color.

Gondolfi said the problems with the Paycheck Protection Program reflect "deeper disparities in the financial system, including mortgage and small-business lending."

“This is a larger conversation than just PPP," he said.

As the attention to smaller businesses and businesses of color ramped up, the size of the average loan dropped. After averaging nearly $146,000 in April, the average loan in May was just under $52,000. It fell even further in the third month of the program to less than $31,000.

As the program neared its end, online lenders played a bigger role.

In May, the third month of the Paycheck Protection Program, Po'Shines, a soul food restaurant in North Portland, got a nearly $16,000 loan using Square Capital, an online platform that got loans approved through Salt Lake City's Celtic Bank, which ranked
No. 3 in PPP loans between June and August.

"It worked out really well," said John Tolbert, Po'Shines general manager. "For me, as a Black owner, and speaking maybe for other Black business owners, the hardest part was just getting (the loan) processed and making sure you don't get overlooked."

Tolbert also serves as president of the Portland-based Black American Chamber. He said there needs to be safeguards to make sure businesses of color have adequate access to relief efforts.

"There need to be systems in place for the Black community," he said. "If Black lives really matter, let's do it right."

In the wake of not getting a Paycheck Protection Program loan, Brown has had to take extraordinary measures.

She emptied her savings account. She's behind on her mortgage. She said the electric company has given her some relief.

"I'm still behind on my mortgage payments," she said. "Luckily, everybody is very forgiving. But come January I'm going to owe that money."

Brown got some money from the Oregon Cares Fund, which was created with the state's share of the $2.2 trillion CARES Act, and which benefits Black Oregonians and businesses. But she didn't have any luck applying for any other relief programs.

"I applied for everything," she said.

In lieu of more financial relief, she said one of her sons and his wife used their money to clean and paint her shop. Brown felt bad about the gesture because the couple is saving to buy a house.

"He said, 'Don't worry, we'll get through this,'" Brown said. "Luckily, I have two sons who are fantastic and fabulous and have really good jobs and help their mother out. It's still difficult."

'We found significant differences'

While racial disparities were evident early in the program, by the end of the second round of loans, the dollar distribution began to
even out. In the end, white neighborhoods got $340 billion in PPP loans (65% of the total), according to the Business Journals analysis. Black neighborhoods got $24.6 billion (5%). Hispanic neighborhoods got $42 billion (8%).

For context, roughly 65% of Americans live in majority-white census tracts, 7% live in majority-Black census tracts and 11% live in majority-Hispanic census tracts.

Heavily white neighborhoods fared the best. Ninety-percent white neighborhoods got one loan for every 69 people, according to the Business Journal analysis, compared with one for every 104 people in comparable Black neighborhoods and one for every 108 people in Hispanic neighborhoods.

Those same white neighborhoods got roughly two-thirds of their loans approved in the first month of the program, compared with less then one-third for comparable Black neighborhoods and 41% for Hispanic neighborhoods.

A separate analysis of PPP data done by the economic and financial watchdog group the National Reinvestment Coalition found wealthier neighborhoods got money quicker than less affluent areas.

"We found significant differences between low-income tracts and the upper-income tracts," said senior analyst Bruce Mitchell.

Mitchell said the findings reflect what his organization expected after documenting what it determined was discrimination during the PPP application process. He said the program ultimately didn't satisfy the language in the legislation about prioritizing disadvantaged borrowers.

"There was...an intention in the language...that it should prioritize underserved and minority areas, and it apparently did not," Mitchell said.

In the end, Busby said his chamber's most recent member survey shows about 60% of Black businesses didn't get a PPP loan and 94% got less than requested. U.S. Black Chambers Inc. represents nearly 100 regional Black chambers of commerce.
The U.S. Hispanic Chamber estimates Hispanic businesses got between $2 billion and $3 billion from the program.

"That's barely 1%," Cavazos said.

Cavazos estimates 32% of Hispanic businesses are closed or temporarily shuttered.

"They need capital to either reopen or to start a new business," he said.

That could arrive soon.

While its future is in doubt after comments from President Donald Trump, the $900 billion relief bill approved by Congress includes another $284 billion for the Paycheck Protection Program, with $15 billion set aside for CDFIs and minority depository institutions, according to a summary provides by U.S. Sen. Ron Wyden's office.

That sort of targeted approach is critical, Busby said.

"We need to ensure that we are intentional about where this next funding goes," he said. "We know the communities that were hit the hardest. We need to target those."

As for Brown, Dean's Beauty Salon is still open for business.

"I believe that if you put good stuff out in the world, good comes back at you," she said. "But it is hard and it's difficult. But I don't get down because I'm not sick and I'm blessed that my family is well."

**Matthew Kish**
Staff Reporter
*Portland Business Journal*
LEFT BEHIND

How the pandemic intensified the racial divide in banking relationships and access to capital PAGE 12

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SOURCE: SBA; U.S. CENSUS
Data shows Black-owned businesses in Baltimore were largely shut out of PPP funding

F ewer than a third of Paycheck Protection Program loans of at least $150,000 in Baltimore went to areas of the city where minorities make up the majority of the population — and most of those loans didn’t go to Black-owned businesses, a Baltimore Business Journal analysis found.

While the Small Business Administration has only released limited data about PPP recipients, the available information combined with other recent studies and surveys provides a more complete view of how Black-owned businesses could not get access to the government’s critical lifeline during the pandemic.

Systemic racism in the banking system — well known but not often discussed openly — has hit home as Black businesses have largely been left out of a process aimed at saving small businesses in a time of crisis. The numbers back up the anecdotes Black business owners have been sharing since the start of the PPP loan process in April. A look at loans made in majority-Black areas shows PPP relief money mostly eluded Black businesses.

More than 81,300 businesses and nonprofits across Maryland received approval for forgivable loans from the federal government totaling $10 billion as of July 6, according to SBA data. The Baltimore Business Journal reviewed 1,926 records for SBA-approved loans of at least $150,000 in Baltimore City ZIP codes and compared them with census tracts. The ZIP codes also include Halethorpe, Pikesville, Rosedale, Parkville and Gwynn Oak.

The BBJ’s analysis found:

▸ 31% of the loans of at least $150,000 went to entities in tracts with more than 50% minority populations.

▸ In those tracts, more often than not the entities that received approval for loans were not Black-owned. Most of the time, the recipients were white-owned businesses, addiction treatment centers, private schools, churches or other nonprofits.

▸ The Business Journal could confidently identify about 45 businesses as Black-owned among the 599 entities that received loan approvals in minority-dominated census tracts.

▸ Looking at the first round, when $349 billion was distributed in just two weeks across the U.S., 72% of recipients in Baltimore were entities in majority-white census tracts.

The distribution of the loans shows the disparity between what have become known in recent years as Baltimore’s “Black butterfly” and “white L.” The names refer to a pattern identified by former Morgan State University professor Lawrence Brown in 2016 to describe how Baltimore’s majority-Black population spreads out across the eastern and western halves of the city, forming the shape of a butterfly’s wings, while the white population is concentrated in areas that form an “L”-shaped pattern down the center of the city and along the waterfront.

Brown, who is currently director of County Health Rankings & Roadmaps at the University of Wisconsin, said the...
WHERE DID PPP LAND?

Over two rounds of PPP funding, Maryland racked up 81,300 loans from the federal small business relief program, 1,926 of which were for more than $150,000 and went to entities in Baltimore City ZIP codes. The map above shows one dot for each loan, with colors corresponding to loan size. The SBA did not release address-specific data for loans under $150,000, so those loans do not appear on this map.

KEY
- Loans between $150-350K
- 1-2M
- 2-5M
- 5-10M
- Baltimore City border

SOURCE: SBA
geographic distribution of PPP loans matched what he would have expected. However, he was surprised that even within majority-Black neighborhoods, so few recipient businesses could be determined to be Black-owned.

“It’s even worse than I would have guessed,” Brown said. “In a city that is more than 60% Black, that is what is really disturbing.”

A few examples include:
- In a census tract in Southwest Baltimore where more than 93% of the population is Black, the only loan approvals were for Mount Saint Joseph High School and the Xaverian Brothers, who sponsor the school in the city’s Irvington neighborhood.
- In a census tract that’s 96% Black and includes Baltimore’s Upton and Madison Park neighborhoods, the only approved PPP loan went to a Total Health Care medical clinic.
- The only approved loan in a census tract in West Baltimore’s Mosher neighborhood with a 95% Black population went to the Tuerk House addiction treatment center.

The data analyzed by the Business Journal does not provide a complete picture of local PPP lending because the SBA has not made all of its information available. The SBA provided specific addresses only for loans of at least $150,000 after being sued by a group of media companies, including this paper’s parent, American City Business Journals.

For loans of less than $150,000, the SBA provided only ZIP codes, making it impossible to determine where exactly an entity is located. The SBA also did not require banks to collect demographic information during the application process. But combined with other studies, there is a clear picture of the disparity Black businesses faced.

A study conducted by the National Community Reinvestment Coalition found differences in how banks treat Black and white borrowers by sending pairs of would-be applicants to 17 banks in Greater Washington. During 43% of the tests, Black borrowers received different product offers and worse treatment.

Black-owned businesses have also...
closed at more than twice the rate of white-owned businesses, according to a National Bureau of Economic Research paper published in July and authored by Robert Fairlie of the University of California at Santa Cruz. Nationwide, 26% of Black-owned businesses closed between February and May, compared with 11% for white-owned businesses.

Like many Black-owned businesses, Goldiata Creative lacked the bank relationship it needed to secure needed PPP money from the federal government’s small business relief fund.

“As a newer, growing business with no payroll, I was ineligible for damn near everything,” said Brian Taylor, the digital marketing agency’s founder. Taylor did not apply for a PPP loan because he did not think the firm would be eligible. The business has two full-time employees and the rest are independent contractors. Taylor found the program’s fast-changing rules and regulations confusing.

The SBA didn’t even issue guidance related to independent contractors until two days before the PPP’s first round ended on April 16.

Fortunately for Taylor, Goldiata has continued to bring in business as companies shift to doing more e-commerce and digital marketing. However, Taylor said he is frustrated because the PPP loan would have provided a much-needed lift. He held off on transitioning an intern to full-time work and continues to find his business in a “weird middle ground” between being able and unable to hire people.

“The loan would not have ended up in my pocket,” Taylor said. “It still would have achieved what the government ultimately would want to do, which is get more people into the workforce, give back to the community and stimulate the economy.”

‘A classic illustration of structural discrimination’

To understand why Black-owned businesses had a harder time than white counterparts in accessing PPP requires understanding the systemic racism that exists within the financial system.

The SBA administered the $659 billion PPP, but the money was distributed through banks. Most banks prioritized customers with existing relationships and took applications on a first-come, first-serve basis. The goal was to get as much money to as many businesses as possible, as quickly as possible.

The banks largely succeeded, working around the clock to process applications and funding for the first round, which dried up in just two weeks. But Wells Fargo and Capital One struggled to open their online portals, leaving customers sidelined in the first round.

Activists also criticized the program after Ruth’s Chris Steak House, Shake Shack and other large companies were revealed to have received PPP loans. Critics blamed banks for prioritizing larger clients to maximize fee revenue.

The PPP’s rules allowed lenders to charge processing fees between 1% and 5%, depending on the loan amount. Higher fees of 5% are charged on the smallest loans of $350,000 or less, while fees of just 1% are assessed on loans of $2 million or more. That means a bank could make $20,000 off a $2 million loan compared to $7,500 for a $150,000 loan.

Black-owned businesses faced inherent challenges because they are less likely to have an existing banking relationship. Banks operate on slim margins and perceive small, unproven businesses as riskier investments. The PPP’s focus on payroll also put Black enterprises at a disadvantage because many have few, if any employees.

“This is like a classic illustration of structural discrimination,” said Audrey McFarlane, a professor at the University of Baltimore School of Law. “The way the existing systems and processes work kind of works to the advantage of people who are keyed into those processes, and it works to the disadvantage of people who are not.”

Small businesses also lack the teams of lawyers and accountants that larger businesses can afford. Specifically in Baltimore, the disparity in PPP lending continues a pattern that has plagued the so-called Black butterfly neighborhoods.

Brown’s research and a report in 2019 by the Urban Institute found that the city’s majority-Black neighborhoods lack the investment, economic activity and physical bank branch locations of the majority-white parts of the city.

CONTINUED ON PAGE 16
“You have the existing banking apartheid that is built on top of residential racial apartheid in the city,” Brown said, “so of course what you’re going to have is those relationships being much more expansive in the white Land definitely not as many deep relationships in the Black butterfly.”

Terence Dickson, the owner of Terra Café, got a $38,000 PPP loan from Bank of America for his Southern comfort and soul food restaurant. It was the first time he had ever been able to get funding from a bank, he said. The loan was still less than the $65,000 he applied for. He said his application ran into issues because he did not have an existing line of credit. He accepted the offer because he worried he might not get any money at all if the program ran dry during an appeal.

Dickson, who founded Terra Café in 2011 and has mentored numerous young, Black local entrepreneurs, said many business owners he knows did not bother applying for PPP because they assumed they would be rejected.

“Everybody was happy when [the government] said they were going to help, but when they said the banks would be the distribution center that’s when it wasn’t any good anymore,” Dickson said. “I’m traumatized. I asked you for a credit card and you said no. I asked you for a loan and you said no. I asked you for some help you said no. But you have your fees every month. They treat us like we’re just cattle.”

By denying Black business owners access to capital, he said the financial system prevents the Black community from becoming self-sufficient.

“We are sharecroppers in our own community,” Dickson said.

Debra Keller-Greene, chair of the Greater Baltimore Black Chamber of Commerce, said banks did their job and the numbers reflect how the financial system works. She also gave kudos to the SBA, saying the agency went “above and beyond” to do outreach with the chamber and participated in a webinar for members to ask questions.

The PPP “was an educational opportunity for Black-owned businesses to understand how to be ready for these opportunities,” Keller-Greene said.

Leaders from several of Baltimore’s largest banks pushed back when asked about the BBJ’s findings. They said a majority of the loans they made were for far less than $150,000 and largely went to the smallest of businesses.

For example, Bank of America, the market leader in Baltimore with deposit market share of 30%, said it funded 10,645 loans across Maryland for $744 million. Its average loan was $70,000 and 86% of the money went to businesses with 10 employees or fewer.

The Charlotte-based bank did not provide city-level data. Our analysis found 29% of the bank’s 164 loans of at least $150,000 in Baltimore went to entities in majority-Black census tracts.

Sabina Kelly, Maryland market president for Bank of America, said the bank provided information about PPP to small business owners early on through email and on its website.

“Every single one of the leaders and all the relationship managers were entirely focused 100% of the time, including support staff, on outreach to clients to make sure their applications were uploaded, it was reviewed and it was complete,” Kelly said.

Before Covid-19 hit Maryland, Kelly said Bank of America provided funding to community development financial institutions to help businesses without banking relationships. At the national level, the company announced a $1 billion pledge over four years “to help local communities address economic and racial inequality accelerated by a global pandemic.”

“We as a society have a lot of work to do,” Kelly said. “We have a commitment and we are taking a leadership role and take it seriously that we have a responsibility.”

M&T Bank was Baltimore’s largest PPP lender with more than 1,800 loan approvals. Of the Buffalo-based bank’s 461 loans of at least $150,000, 28% were to entities in minority-dominated census tracts.

Debra Miller, who leads a minority- and women-owned business banking team for M&T in Baltimore, said the PPP application process “was one of the most challenging and rewarding times of her career as well as her life.”

She was not surprised that “many among Baltimore’s minority business community have been disproportionately impacted by the economic ripple effects of the Covid-19 pandemic.”

“Even in good times, many of them lack the access to capital, network connections and other resources that their white male counterparts statistically have greater access to for help,” Miller said. “Meanwhile, the impact racial inequality and social injustice have had on the minority business community—specifically entrepreneurs of color—also cannot be ignored.”

Demonstrating the importance of building relationships, Miller’s team successfully helped all of its clients in Greater Baltimore who sought PPP funding get a loan. All except for five loans were for less than $150,000.

Nakeia Drummond was among the successful Black business owners who got a PPP loan. Though she did not get her full request, the money was enough to help her boutique consulting firm, NLJ Strategic, successfully “reboot” for work that is coming in now.

Drummond also leads a network of Black women business owners, the Women Entrepreneur Leadership Lab. She said 40% of the group’s approximately 30 members successfully got PPP loans. She attributed the success to relationships that have been built with bankers like Miller.

Banking is a relationship-based business, she said, and when Black people go into banks they often feel like outsiders because of historic racism.

“We as humans seek to avoid pain or discomfort. Because banks are set up for white men, when we go in them we feel that. We feel other.”

U.S. Sens. Ben Cardin and Chris Van Hollen, both Democrats representing Maryland, have criticized the SBA’s handling of the program. Both said the Business Journal’s findings confirmed their initial concerns about how equitable PPP would be. They are both unhappy that the SBA did not collect demographic data. The agency’s loan forgiveness application will include a question about demographics but it is voluntary for businesses to answer.

Cardin and Van Hollen said they are working on various fixes and alterna-
Cardin hopes to get more funds to community development financial institutions (CDFIs). He also wants to set aside a portion for “mission-driven lenders,” and to beef up the SBA’s Economic Injury Disaster Loan program since its funding can be used for working capital instead of primarily payroll.

Van Hollen has advocated for expanding the federal government’s work-share program. His proposal would let employers share payroll costs with the federal government while receiving grants to help cover other fixed costs like rent and reopening expenses. He said the work-share program would be universally available to all businesses.

If Congress decides to go in the direction of improving PPP, Van Hollen said a “large amount of funds” must be set aside for “truly small businesses” with fewer than 50 employees, and funds should be targeted to areas hit hardest by Covid-19.

Cassandra Jones Havard, a professor at the University of Baltimore School of Law, said more loan and venture capital funds need to be focused specifically on minority businesses. McFarlane said more money should be distributed through CDFIs instead of traditional banks. She also suggested making money available directly to businesses through groups like the Greater Baltimore Black Chamber of Commerce.

Keller-Greene, of the Greater Baltimore Black Chamber of Commerce, said leaders need to figure out how to make funds accessible for small businesses, particularly microbusinesses. She also said the chamber has work to do from an educational standpoint, and to provide technical assistance so business owners are prepared the next time a program like PPP becomes available.

“It’s a two-way street,” she said. “We want our Black-owned businesses to not spend as much time lamenting over what has not worked. Part of it is taking responsibility to be in a better position so that we are competitive. “In the best-case scenario, we establish those relationships with the banks and change the perception that we are not credit-worthy and not bank-worthy.”

ROUND BY ROUND
In both rounds of PPP lending in Baltimore, most of the money went to companies in majority-white neighborhoods. The first round of 1,192 loans was more disparate, as banks largely processed loans with existing clients and loans for larger sums first. While the second round of 734 loans provided more access to small businesses, those recipients ended up waiting at least an additional three-and-a-half weeks to get funding.

| KEY | Loans between $150-350K | 350K-1M | 2-5M | 1-2M | 5-10M | -- Baltimore City border |

ROUND 1

ROUND 2
As of June 30

SOURCE: SBA
The U.S. Small Business Administration late Tuesday released detailed information about approved borrowers from the federal government's $659 billion Paycheck Protection Program.

U.S. District Judge James Boasberg had ordered the SBA to release the "names, addresses, and precise loan amounts of all individuals and entities that obtained COVID-related loans pursuant to the Paycheck Protection Program and Economic Injury Disaster Loans program" in response to a lawsuit filed in May by several news organizations, including this newspaper's parent, American City Business Journals.

SEARCH ALL THE DATA: Scroll down to access and filter the PPP loan data by state, city and keyword.

The information released Tuesday includes the names, amounts, addresses, industry codes, and lender information for the Covid relief program's roughly 5.2 million approved loans.
The SBA had previously only released detailed information for approved loans above $150,000 and with dollar ranges rather than specific loan amounts.

Prior to filing suit, the news organizations were unable to obtain the information through use of the Freedom of Information Act. American City Business Journals joined the lawsuit in late May.

The SBA had previously declined to release the information, citing privacy concerns. The news organizations argued the information is in the public interest, arguing also that the PPP loan application notified applicants that loan information was disclosable under the Freedom of Information Act.

Judge Boasberg sided with the plaintiffs, writing in a November opinion that the "significant public interest in shedding light on SBA's administration of the PPP and (Economic Injury Disaster Loan) program dramatically outweighs any limited private interested in nondisclosure."

The Paycheck Protection Program is the federal government's primary COVID-19 effort for small business, but it has been criticized for favoring larger, more established businesses at the expense of the vulnerable small businesses for which it was created.

The Wall Street Journal reported in November on concerns about Paycheck Protection Program fraud.

In July, the SBA's inspector general reported "strong indicators of widespread potential fraud" in the Economic Injury Disaster Loan program.

The SBA previously got Judge Boasberg to delay the release deadline until Dec. 1 while the agency decided whether to appeal to a higher court.
SEE ALL THE DATA: Paycheck Protection Program loans
5,156,850 PPP Loans

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¹ Based on NAICS classification