

# DIGITAL FINANCING:

Filling a Gap for Entrepreneurs  
Across the Country



This paper was authored by Paul Disselkoen, Senior Associate, PayPal Public Affairs with special assistance from Usman Ahmed. Research analysis was supported by Simon Schropp and Olim Latipov of Sidley Austin LLP.



# Table of Contents

---

Executive Summary	4
State of SMB Lending	6
Filling the Gaps for the Underserved	7
Equity in SMB Lending	10
Policy Recommendations	12
Conclusion	14

# Executive Summary

The past few years have been incredibly difficult for small businesses. From the economic fallout of the global pandemic to rising inflation causing new economic headwinds, entrepreneurs of all sizes, types, and backgrounds have been struggling to manage through the volatility. And while inflation may have peaked in 2022,<sup>1</sup> inflationary pressures will likely persist for the near future.<sup>2</sup>

Small businesses are often the most vulnerable in times of economic downturn. The National Federation of Independent Business (“NFIB”) Small Business Optimism Index (the “Index”) declined for the twelfth consecutive month in December 2022.<sup>3</sup> Additionally, in Q1 of 2023, the US Chamber of Commerce Small Business Index cited inflation as the top concern for small businesses.<sup>4</sup> Another survey from Digital.com reported that 65% of small business owners said it is very likely or likely that they’ll be forced to permanently close if inflation continues at its current rate.<sup>5</sup>

Despite the challenging macroeconomic environment, there are record numbers of small businesses being created. According to the Economic Innovation Group, there were 5 million new business applications filed in 2022 – 1.7 million of which were for firms likely to hire employees – up 28% from before the pandemic.<sup>6</sup> This surge in business creation means more jobs, more innovation, and hopefully more resilience for economically disadvantaged communities. Access to financing is critical for these new businesses, who may have a limited startup capital and credit history.

The macroeconomic shocks of the past few years have not affected all small businesses equally. Minority and women-owned small businesses – who have been traditionally underserved by the financial services industry – are more likely to be adversely impacted by economic downturns. For example, we saw this in the early days of the pandemic when 42% of Black-owned Small and Medium Businesses (“SMBs”) were closing, twice the rate as their White-owned counterparts.<sup>7</sup> Furthermore, these are the businesses that traditionally face barriers to access capital when applying, as compared to their White-owned counterparts.<sup>8</sup> In a recent survey, nearly half of Black-owned SMBs that applied for financing in the last 12 months reported receiving no funding, compared to just 28% of White-owned SMBs.<sup>9</sup> This, in turn, discourages minority-owned SMBs from even applying.

With entrepreneurs all over the country dealing with difficult economic conditions, the importance of access to financing has become magnified. Business owners need to be able to tap into credit to help manage cash flow as well as when they see an opportunity for investment and growth.

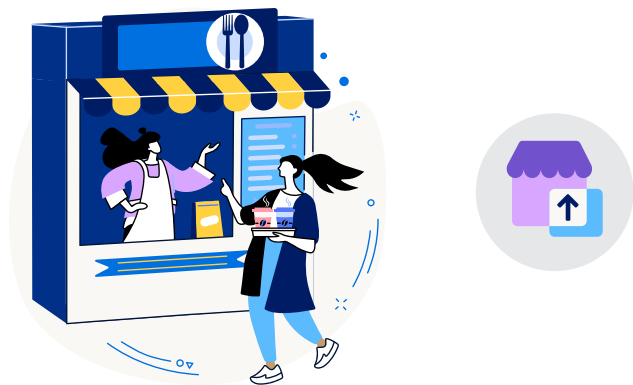
Even in normal times, it may be difficult for small businesses to receive loans from traditional financial institutions due to profitability and risk concerns. In February 2021, big banks approved about half the number of small business loans as they had the year before the pandemic.<sup>10</sup> A recent Federal Reserve survey of small business found that, of those that did not apply for financing, 44% felt that they would not qualify or be denied.<sup>11</sup> A recent report from Biz2Credit found that small business loan approval percentages at big banks dropped to 14.6% in November 2022 whereas alternate lenders approval rates increased to 27.4%.<sup>12</sup>

Financing is a key driver of growth and success for small businesses. Access to capital is consistently listed as a top priority for small businesses and those that can meet their financing needs may experience stronger growth and be better suited to weather unexpected expenses or economic downturns.<sup>13</sup> And, while financing is a key priority for small business owners, it also consistently remains a challenge; a challenge that has been exacerbated by the pandemic and by inflation.<sup>14</sup>

There is a lack of options for small businesses to obtain traditional financing. A report from the National Community Reinvestment Coalition found that 9% of all bank branches in the US closed between 2017 and 2021 and one out of three of those closures were in low- and moderate-income neighborhoods.<sup>15</sup>

Digital financial services play a pivotal role in filling the gaps in access to small business financing. Automated processes, unique underwriting capabilities, and different eligibility requirements can enable digital financial services to reach smaller businesses and entrepreneurs who may face systemic barriers when applying for a business loan.

A recent analysis of data from PayPal Working Capital (“PPWC”) and PayPal Business Loan (“PPBL”)<sup>16</sup> demonstrate the importance of digital financial services in the small business lending ecosystem:



**PPWC/PPBL are helping to fill a gap in areas where traditional financial institutions are closing/consolidating.**

**54%** of the total value of PayPal serviced small business loans were in zip codes where **10** or more bank branches closed between **2017-2022**.<sup>17</sup>

**These business loans are also in areas of greater poverty, infusing capital into local communities that need it most.**<sup>18</sup>

**67.2%** of the total number of small business loans serviced by PayPal in 2022 went to low- and middle-income census tracts.

In 2022, **16.3%** of the total number of PayPal serviced small business loans went to census tracts where greater than 25% of the population is in poverty.

**44.1%** of the total number of PPWC loans made were in census tracts outside of urban areas.



**Over one-third of the total value of PayPal serviced small business loans were made in census tracts with greater than 50% minority population.**<sup>19</sup>

Nearly a quarter of PayPal small business loans were disbursed in neighborhoods with greater than **25%** Hispanic population.

Additionally, **17%** of the total number of small business loans serviced by PayPal were disbursed in census tracts with greater than **25%** Black population.

Small businesses are the engines that drive our economy. They create jobs, support local neighborhoods, and can lead to greater wealth building in disadvantaged communities. As the global economy continues to battle inflation and work its way towards stability, it is critical to enable small business growth and empower entrepreneurs to be the drivers of that recovery. Capital is a key piece of that success. Innovative solutions to capital disbursement can create greater opportunities by reaching into underserved communities. The public and private sectors are well positioned to work together to ensure the proper resources reach entrepreneurs of all backgrounds to help them reach their full potential.

# STATE OF SMALL BUSINESS LENDING

Small businesses are the engine of the US economy. There are over 33 million small businesses in the U.S., accounting for over 99% of all firms.<sup>20</sup> These businesses help build stronger communities by creating jobs and contributing to economic growth. Between 1995 and 2021, small businesses accounted for 62.7% of net new jobs and in the past year, they accounted for 43.5% of the entire GDP for the U.S.<sup>21</sup>

Small business owners have faced tremendous challenges in the past few years. The combination of a global pandemic and subsequent economic fallout as well as rising inflation have created a perfect storm for entrepreneurs. Early in the pandemic, the rate of small business closures skyrocketed, reaching about 700,000 closures in the second quarter (Q2) of 2020,<sup>22</sup> but a sizeable number of those closures ended up being temporary. According to the Economic Tracker founded by Harvard University, by the end of 2020 there was a decrease of approximately 6.3% of SMBs in the first year of the pandemic.<sup>23</sup>

As the economy recovered from the pandemic over the past year, small businesses faced new issues such as supply chain disruptions and rising inflation. The National Federation of Independent Business (“NFIB”) Small Business Optimism Index declined every month in 2022.<sup>24</sup> The U.S. Chamber of Commerce’s Q1 2023 small business index reported that inflation is the number one concern for small business owners.<sup>25</sup>



SMBs in US according to Economic Tracker

Despite these challenges, small businesses are being created at record rates. According to the Economic Innovation Group, there were 5 million new business applications filed in 2022 – 1.7 million of which were for businesses likely to hire employees – up 28% from before the pandemic.<sup>26</sup> This surge in business creation means more jobs, more innovation, and hopefully more resilience for economically disadvantaged communities.

Access to financing consistently ranks as one of the top priorities for small business owners even during normal economic times. It is critical for entrepreneurs to be able to access financing to hire employees, modernize and grow their operations and have cashflow during downturns in revenue. According to Fundera, 20% of small businesses fail in the first year, 30% in the second year, and 50% by year five. Nearly 40% of these businesses fail because of a lack of access to capital.<sup>27</sup>

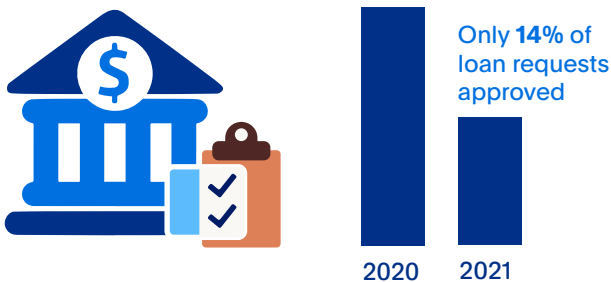
Demand for access to financing remains strong for small businesses. Hello Alice found that 62% of small business owners were planning to seek out financing in the coming year, but 89% reported access to capital as the biggest barrier to growth.<sup>28</sup> Additionally, a December 2022 survey from NFIB reported the highest percentage of SMBs citing access to financing as a top priority since December 2018.<sup>29</sup>

The Federal Reserve’s interest rate policies are having an impact on capital allocation. The prime rate, which sets the floor for small business loans from traditional financial institutions, more than doubled from 3.25% in January 2022 to 7.5% in December 2022.<sup>30</sup> Data from the Fed shows banks are tightening their lending standards in recent months, resulting in fewer loans being approved.<sup>31</sup> Small business owners will be impacted by the contraction of capital and those who do receive loans will be faced with higher costs. According to Bloomberg, U.S. bank lending contracted by a record \$100 billion in the last two weeks of March 2023.<sup>32</sup>

The recent turmoil in the banking system with the collapse of Silicon Valley Bank and Signature Bank, and forced sale of First Republic Bank, also creates uncertainty in the market for small business owners.<sup>33</sup> In April 2023, the International Monetary Fund (“IMF”) warned that U.S. banks may pull back so much in response to the banking sector turmoil that it could account for a half of a percentage point decline in GDP.<sup>34</sup> Tighter standards for lending will likely mean a further reduction in loans approved for SMBs. The Federal Reserve has reported a record outflow of deposits in smaller institutions which may have broader implications for access to capital, particularly disadvantaging small businesses.<sup>35</sup>

# FILLING THE GAP FOR THE UNDERSERVED

Access to financing has long been an uphill battle for small businesses, particularly those seeking smaller dollar loans. Regulations coming out of the Great Recession in 2008 caused many of the larger banks to be more cautious in lending to small businesses. The Federal Reserve found that small business loans in larger financial institutions accounted for about half the amount of their total portfolio as smaller institutions.<sup>36</sup> According to a survey from Biz2Credit, big banks approved 14% of loan requests in 2021, nearly half as many as the year before.<sup>37</sup>



Bank approval rates for SMB Loans in US according to Biz2Credit Survey

Regional and community banks in the U.S. account for more than a third of total bank lending and have played an outsized role in small business creation since the pandemic.<sup>38</sup> The recent financial stability report from the IMF states that a retrenchment from these institutions due to the recent turmoil in the banking sector could have a tremendous impact on economic activity.<sup>39</sup> According to the American Banker's Association latest Credit Conditions Index, 70% of the decline in loans came from community and regional banks, which will impact business credit quality.<sup>40</sup>

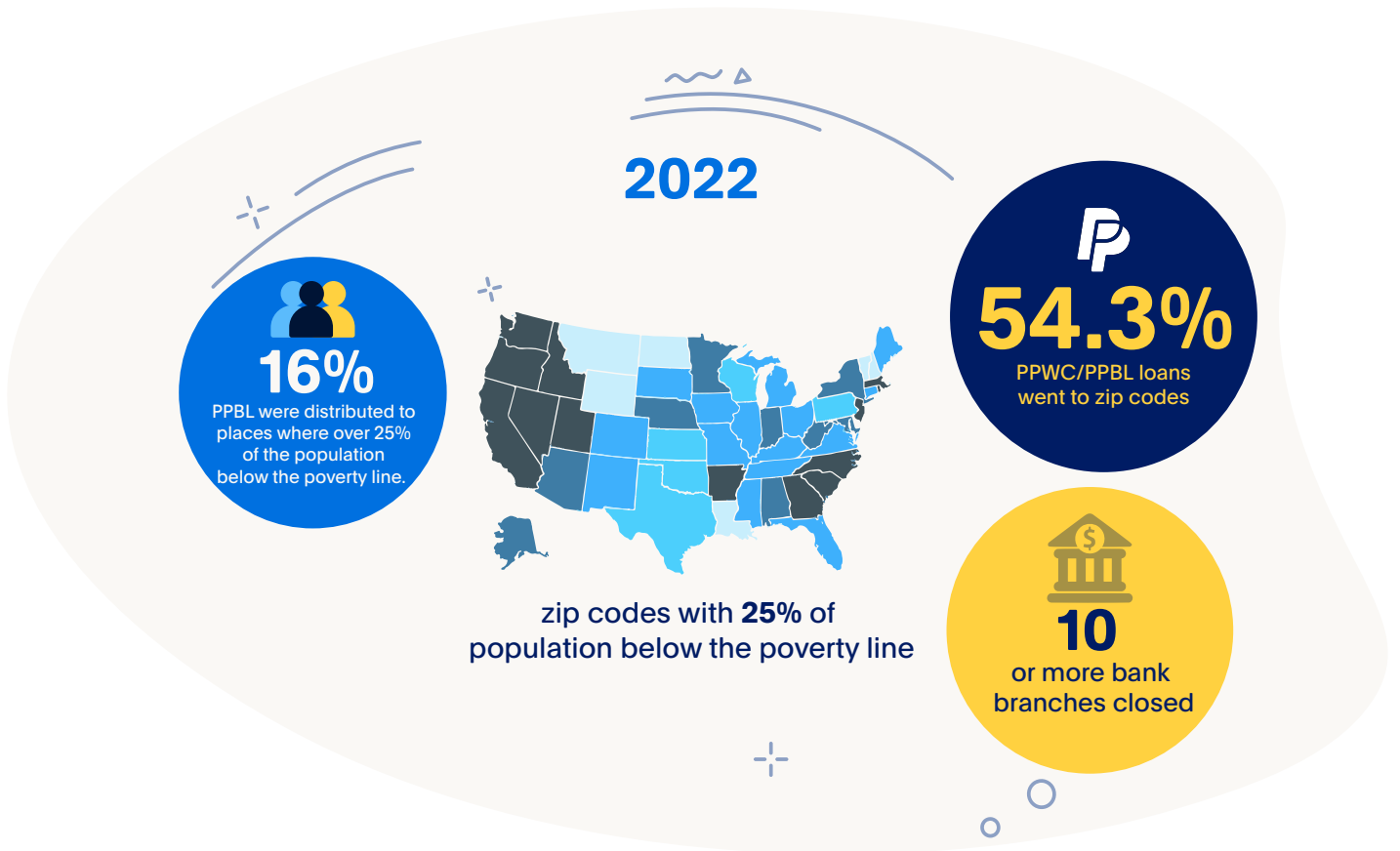
There are many reasons why small businesses struggle to get financing from traditional banks, mostly centered around outdated models for assessing risk and profitability. Small businesses often don't have the financial records or the collateral that traditional loans require.<sup>41</sup> Legacy institutions often use the credit of the individual as a proxy for the health of the business.<sup>42</sup> Additionally, many of the smallest businesses are seeking loans under \$100,000, which are less profitable for larger banks.<sup>43</sup> The combination of inflationary pressures and recent banking turmoil are likely to put further pressure on the financing for the smallest of businesses.

There has been a surge of bank branch closures and consolidations in the last five years. A recent report from the National Community Reinvestment Coalition ("NCRC") found that 9% of all bank branch locations in the U.S. closed between 2017 and 2021, with smaller banks suffering the greatest decline.<sup>44</sup> Low interest rates, driving lower profits, and larger banks leading mergers and acquisitions to gain more market share have led to this trend of closures. And these closures impact entrepreneurs who as a result lack the option of developing a relationship with a financial institution in their neighborhood.

Closures have specifically been concentrated in low-and-moderate income ("LMI") communities that desperately need financial support. The NCRC report found that a third of the branches that closed between 2017-2021 were in LMI communities. These neighborhoods already tend to have higher rates of unbanked and underbanked households. A recent Federal Deposit Insurance ("FDIC") report found that 20% of unbanked households cited the lack of convenience of a physical bank location as the reason for not having an account.<sup>45</sup>

Digital financial services can be a critical part of the solution to filling the gaps left behind by traditional financial institutions. By leveraging unique underwriting capabilities, machine learning/automation and alternative credit risk models, digital financial services can reach this underserved segment of borrowers. A recent working paper from the Federal Reserve Bank of Philadelphia found that FinTech platforms' internal credit scores were able to predict future loan performance more accurately than the traditional approach to credit scoring.<sup>46</sup>

PayPal provides access to two small business lending solutions, PayPal Working Capital ("PPWC") and PayPal Business Loans ("PPBL"). PayPal and its affiliates service these loans for an FDIC regulated bank, WebBank, who is the lender. While structured differently, both products attempt to reach communities that may be left behind by traditional financial services. In 2022, 54.3% of the total value of PPWC/PPBL loans went to zip codes where 10 or more bank branches closed between 2017-2022.<sup>47</sup>



### 2022 PayPal services small business loans

Additionally, over a quarter of PPWC/PPBL loans were disbursed in neighborhoods where 25%-75% of all retail bank branches in the area had closed.<sup>48</sup>

Furthermore, these business loans are helping areas that are more economically disadvantaged communities where small business owners are crucial to overall economic health. Over two-thirds of the total number of small business loans serviced by PayPal in 2022 went to low and middle-income census tracts. Additionally, 16% of PayPal serviced small business loans were distributed in census tracts that are deemed as having over 25% of the population living below the poverty line.<sup>49</sup>

As the banking sector attempts to deal with the challenges of rising interest rates and the fallout from the banking turmoil, it is important to ensure that small businesses can access the financing necessary to survive and thrive. By extending these innovative and responsible lending products, entrepreneurs have additional options for financing.

# SMALL BUSINESS SPOTLIGHT –

## Southern Elegance

D'Shawn Russell, founder, and CEO of Southern Elegance Candle Company, has built her million-dollar business by challenging expectations. She started her small business as a middle-aged mom with no formal business training. And she is also a Black woman in the Southern U.S., where sometimes outdated stereotypes result in raised eyebrows when she enters a room as CEO.

D'Shawn's small-town upbringing in Roseboro, NC, is the inspiration for her small-batch soy candle business, which embodies some of the "best of" where she grew up in the South. Every candle created evokes scents of the South and is named to reflect the unique aromas, flavors, and storied cities of the region. Carolina Pine, Peach Mimosa, and The Bayou are just a few of the selections, and though D'Shawn has traveled the world, she feels the brightest at home, which is currently Raeford, NC.

D'Shawn began making candles in 2015 with two pots on her kitchen stove, and a year later Southern Elegance Candle Company was officially born. Today, Southern Elegance generates more than \$1 million in annual sales and boasts a 60% customer return rate. D'Shawn proudly employs about 20 people, selling candles at her flagship location in Roseboro as well as over 600 stores nationwide.

Like most new businesses, the early stages of Southern Elegance were focused on growth. But finding funding to enable that growth was an uphill battle. **"As a Black, female business owner, I've experienced all of the discrimination that exists,"** D'Shawn said. **"When you're applying for capital through traditional means, they use a traditional process, and sometimes that process can be biased towards certain products or people or situations."**

She discovered a refreshing alternative with PayPal Working Capital. Because the funding is based primarily on PayPal account history, the application process does not involve the often lengthy and nerve-racking experience of traditional loans.

**"It was a game-changer for my business – it was easy to apply, with no jumping through hoops,"**

she said. "I had funding within minutes, and I found it convenient. There's no complicated math. You know how much you're getting and how you have to pay it back."<sup>50</sup>

Since discovering PayPal Working Capital, D'Shawn has been approved for seven additional business loans, allowing her to buy the materials she needs to keep producing more candles and scale her business.

**"When I started the business, and the company started growing, I realized that I had an opportunity to present a story that was unique – not only was I a Black businesswoman, but I was also a middle-aged mom living in the South,"**

she said. Now, D'Shawn is proud to serve as a role model for other entrepreneurs.



# EQUITY IN SMALL BUSINESS LENDING

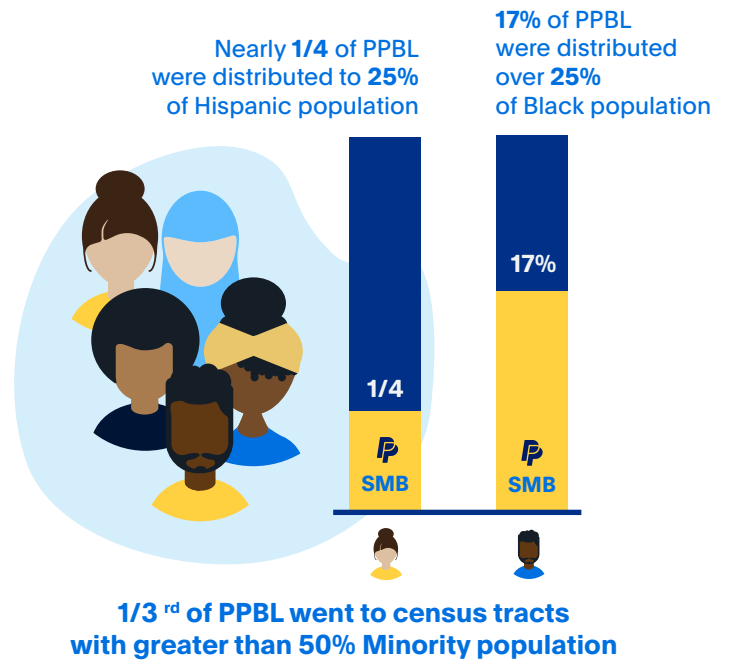
The macroeconomic factors that are impacting small business lending may be more acutely felt by entrepreneurs of color. Minority and women-owned small businesses, traditionally underserved by traditional banks, are more likely to be adversely impacted by economic downturns. We saw this in the early days of the pandemic when 42% of Black-owned SMBs were closing, twice the rate as their White-owned counterparts.<sup>51</sup>

Even during normal economic conditions, minority-owned small businesses have historically faced systemic barriers to financing. Even before the pandemic, the Federal Reserve reported that while 80% of White business owners receive at least some of the funding they seek, only 66% of Black Indigenous and People of Color (“BIPOC”) small business owners can say the same.<sup>52</sup> On top of that, the Minority Business Development Agency reported that minority firms paid about 8% more interest on average for loans.<sup>53</sup> The latest Small Business Credit Survey from the Federal Reserve found that White-owned applicants were twice as likely to report having received the financing they sought compared to their Black counterparts. The same holds true for LatinX and Asian-American-owned businesses.<sup>54</sup>

These historical trends may have played a role in discouraging minority-owned small businesses from seeking the financing that they need. According to a report from before the pandemic, nearly 38% of Black-owned small businesses felt discouraged from applying for a loan, compared to just 13% of their White counterparts. This has led Black-owned small businesses to be more likely to tap into their personal finances to fund their business.<sup>55</sup> In turn, this can lead to greater debt, with higher interest, that impacts the individual’s financial health. Black and other minority business owners often have thin-or-no credit files, making them ineligible for traditional loans since most traditional SMB lending relies on credit scores.<sup>56</sup>

Alternate lending models, which may assess risk in different ways, such as machine learning and leveraging more data to get a wholistic picture of the business’ health, are benefiting minority entrepreneurs. Over one-third of the total value of PayPal-serviced small business loans went to census

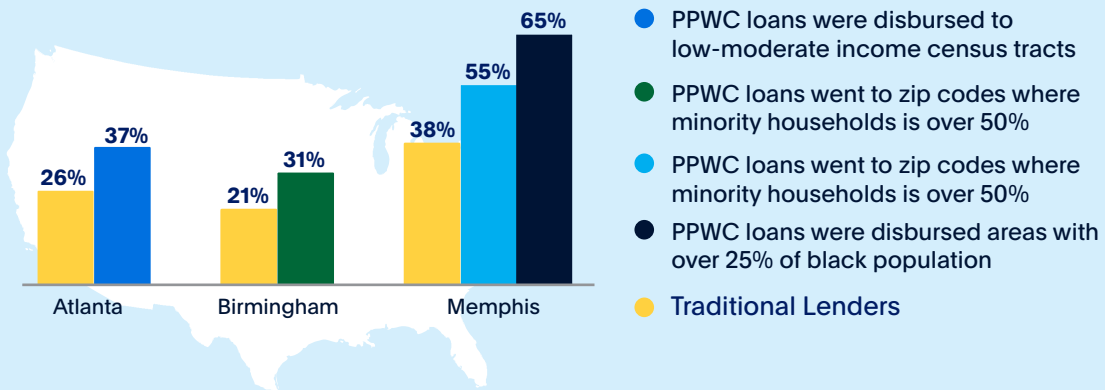
tracts with greater than 50% minority population. In neighborhoods with greater than 25% Hispanic population, nearly a quarter of PayPal small business loans were disbursed. Additionally, in census tracts with greater than 25% Black population, 17% of the total number of small business loans serviced by PayPal were disbursed.<sup>57</sup>



Despite the historic barriers that they have faced, Black-owned small business owners remain the most optimistic about their business outlook.<sup>58</sup> These are also the businesses that are being launched at the fastest rate compared to all other demographics.<sup>59</sup> It is incumbent on the public and private sector to ensure these entrepreneurs have access to financing to build resilience and foster better overall financial health.

# REGIONAL SPOTLIGHT –

## SOUTHERN COMMUNITIES INITIATIVE (“SCI”)



Number of disbursed loans

The racial wealth gap has, unfortunately, persisted for centuries due to systemic inequities that have been a barrier to wealth creation for minority communities. In June 2020, following the tragic murder of George Floyd, there was a huge influx of corporate commitments to address those inequities and address the racial wealth gap. An analysis from McKinsey reported that \$340 billion were pledged by companies between May 2020 and October 2022.<sup>60</sup> Many of these companies quickly learned the struggles of placing large investments into community organizations.

In June 2021, Robert Smith (Vista Equity Partners), Dan Schulman (PayPal Inc.), and Rich Lesser (Boston Consulting Group) cofounded the Southern Communities Initiative to deepen connections to communities by identifying gaps and acting as a channel partner to help deploy corporate capital to address systemic inequities.

SCI focuses on six communities in the south that are home to over 50% of the total Black population in the U.S.: Atlanta, GA, Birmingham, AL, Charlotte, NC, Houston, TX, Memphis, TN, and New Orleans, LA. By prioritizing four key pillars of engagement – minority business growth, access to capital, Historically Black Colleges & Universities (“HBCU”) and workforce development, and digital access – SCI will work with community leaders to help catalyze change and serve as a roadmap for other geographies to leverage.

Small business ownership can be a major factor in wealth creation for minority families. As discussed in this paper, capital access is a critical element of the success of these small businesses. A closer analysis of PayPal Working Capital and PayPal Business Loan, in these six communities, home to so many of these families that are key to closing the

many of these families that are key to closing the racial wealth gap, showed encouraging signs that the coverage of these products was overperforming traditional lending.

The share of all PPWC/PPBL loans disbursed in these six cities is nearly twice the rate of traditional small business loans (9% vs. 5%). Additionally, these loans are reaching the neighborhoods within these cities that need capital the most. In Atlanta, 37% of PPWC loans were disbursed to low- and moderate-income census tracts, compared to 26% of traditional small business loans. In Birmingham, 31% of the total number of PPWC loans went to the zip codes where the share of minority households is over 50%, compared to just 21% of traditional small business loans going to the same areas. In Memphis, the share is even higher at 55% of the total number of PPWC loans, compared to just 38% for traditional SMB loans, and 65% were in areas with over 25% Black population. The loans are also reaching the neighborhoods where traditional financial institutions are leaving. In Atlanta, 74% of the total number of PPWC loans went to the counties where 10 or more banks have closed since 2017 and in Charlotte it is 63%.<sup>61</sup>

Driving impact in these six cities can have a dramatic effect on the closing of the racial wealth gap and driving more economic growth. SCI is partnering with community leaders and companies to implement sustainable solutions for catalyzing change. As is the case across the country, alternate financing can help to fill the gaps for underserved communities and reach small businesses that need it most.

# POLICY RECOMMENDATIONS



## Public policy considerations

Small businesses are the engine of our global economy. They create jobs, bring revenue into their local communities, and support an ecosystem of economic activity across the country. As we continue to face economic challenges with inflationary pressures and a potential recession, supporting these entrepreneurs is more important than ever.

It remains to be seen exactly how severely the Silicon Valley Bank collapse will impact small business lending, but Federal Reserve Chairman, Jerome Powell, himself expects a tightening of capital across the financial sector.<sup>62</sup> Small banks play an important role in small business lending. However, as we see community banks pull back from lending activity, it will put even more stress on entrepreneurs, particularly those in areas where it is already difficult or impossible to access financing from a traditional bank.

Digital finance can play a critical role in filling that gap in access to financing for underserved communities. By leveraging innovative underwriting practices and automating processes, alternate lenders may eliminate some of the friction points and underlying biases in loan applications. Additionally, machine learning and use of more dynamic data points may better assess the creditworthiness of a SMB by moving past outdated models of assessing risk. A recent study from the Federal Reserve of Philadelphia found that FinTech lender's internal risk assessment tools were able to predict future loan performance more accurately than traditional lenders.<sup>63</sup>

It will be critical for the public and private sectors to work together to encourage responsible lending solutions that help open up opportunities for underserved entrepreneurs. There are a few key public policy considerations for expanding access to capital for small businesses:

- Better understand the gap that exists for access to finance by underserved entrepreneurs. Senator Sherrod Brown (D-OH) recently sent a letter to the Office of the Comptroller of the Currency (“OCC”) asking to assess the impact of bank branch closures and consolidations in low- and moderate-income communities. Digitally enabled SMB lending can play a crucial role in providing loans where physical bank branches are closing. Policymakers should work with responsible online lenders to promote these solutions alongside community lenders.
- Enable more public-private partnership around digital finance for small businesses. The Small Business Administration (“SBA”) recently published two Notices of Proposed Rulemakings on modernizing and expanding the legacy 7(a) Small Business Lending program. This is a positive step in updating the 7(a) program to allow for more private sector partners to participate in the program. The SBA plays an important role in supporting small businesses across the country. During the pandemic, we witnessed how the Paycheck Protection Program (“PPP”) provided a lifeline for entrepreneurs, saving millions of jobs and businesses. New partnerships proved to be a necessary tool in reaching more borrowers and a successful use-case of public-private partnerships spurring more loans and smaller loans entrepreneurs. As the SBA moves forward with its efforts to update its 7(a) program it will be essential to consult with the private sector to ensure that the changes being proposed have the desired effect of attracting new private sector partners. Modernizing the SBA technology platform to streamline the process for both borrowers and lenders will better match the technological innovations that FinTech lenders have made in recent years to reach a broader base of borrowers. Updating the criteria and requirements for the 7(a) program itself, as well as how the third-party lender overlays its own underwriting process, is also critical to reach the communities that the SBA has struggled to lend to in the past.
- Finally, further lean into good data that can unlock greater insights about the credit worthiness of underserved entrepreneurs. One of the main reasons that digital finance is able to reach underserved small businesses is looking

at different types of data to help assess credit-worthiness. There has been an increased focus amongst policymakers and regulators on consumer access to data and privacy. Open Banking, a system that allows third-party access to financial data through the use of Application Programming Interfaces (“APIs”), may be an important tool in access to financing. By affording small business owners the ability to link their accounts more easily and securely, lenders can get a more wholistic view of the financial health of participating SMBs. Open Banking information can serve as an alternative to the credit scoring model by leveraging the transactional flow of small-business customers to understand their capacity to repay as well as their payment history. Open Banking adoption requires customers feel safe and secure when sharing their data with financial institutions and/or service providers. Not having a standard may create concern for customers, limiting the number of adopters, and may result in potential friction for providers when looking to build new customer experiences. The benefits of Open Banking will need to be balanced with the need for responsible and secure data sharing as well as strong standards. However, greater consumer freedom in sharing their full financial profile can have immense benefits for small business owners applying for loans.

- While the benefits of alternate lenders are clear, it is also important to remember that community lenders are the foundation of reaching underserved and disadvantaged borrowers. Community Development Financial Institutions (“CDFIs”) and Minority Deposit Institutions (“MDIs”) are pillars of local communities. There should be more focus on how these institutions can leverage state/federal funding to partner with the private sector to modernize operations and more efficiently provide access to capital to borrowers in their communities.

Policymakers and regulators can play an essential role in providing access to capital for small businesses. As we continue to work our way through difficult economic times, it is an important moment for the public and private sectors to work together to enable small business success.

# CONCLUSION

Small businesses are being created at a record pace, despite the economic headwinds that have been highlighted in this paper. The landscape of commerce is changing. The pandemic accelerated digital adoption and e-commerce growth. Small businesses can be created anywhere by anyone. That makes it more difficult than ever to ensure entrepreneurs are able to access the financing they need to grow and reach their full potential.

As the banking sector continues through an uncertain time, it is critical to recognize the role that responsible digital financial services companies play in reaching underserved and disadvantaged small business owners. By closing the gap in access to financing, and enabling more small business success, we can generate more economic opportunity, build wealth in communities, and inspire change.



# References

- 1 <https://www.bbc.com/news/business-61762131>
- 2 <https://www.cnbc.com/2023/02/14/consumer-price-index-january-2023-.html>
- 3 <https://www.nfib.com/content/press-release/economy-small-business-optimism-declines-as-expectations-for-better-business-conditions-worsens-in-december/>
- 4 <https://www.uschamber.com/sbindex/quarterly-spotlight>
- 5 <https://digital.com/inflation-may-force-2-in-3-small-businesses-to-close-in-2022/>
- 6 [https://eig.org/2022-business-formation/?utm\\_source=newsletter&utm\\_medium=email&utm\\_campaign=newsletter\\_axiosmacro&stream=business](https://eig.org/2022-business-formation/?utm_source=newsletter&utm_medium=email&utm_campaign=newsletter_axiosmacro&stream=business)
- 7 [https://www.newyorkfed.org/medialibrary/media/smallbusiness/DoubleJeopardy\\_COVID19andBlackOwnedBusinesses](https://www.newyorkfed.org/medialibrary/media/smallbusiness/DoubleJeopardy_COVID19andBlackOwnedBusinesses)
- 8 <https://www.federalreserve.gov/publications/2019-november-consumer-community-context.htm>
- 9 <https://helloalice.com/blog/capital-access-small-businesses-2022-report/>
- 10 <https://apnews.com/article/covid-health-business-small-business-inflation-5a49c9e3e56d3d48908624eb7a0a00f7>
- 11 <https://www.fedsmallbusiness.org/medialibrary/FedSmallBusiness/files/2021/2022-sbcs-employer-firms-report>
- 12 <https://www.biz2credit.com/small-business-lending-index/november-2022>
- 13 <https://www.federalreserve.gov/publications/2019-november-consumer-community-context.htm>
- 14 <https://www.fedsmallbusiness.org/medialibrary/FedSmallBusiness/files/2021/sbcs-report-on-firms-owned-by-people-of-color>
- 15 [https://ncrc.org/the-great-consolidation-of-banks-and-acceleration-of-branch-closures-across-america/?utm\\_source=Triggermail&utm\\_medium=email&utm\\_campaign=BankIn%20Briefing%2003062023&utm\\_term=Banking%20Innovation%20Briefing%20Active](https://ncrc.org/the-great-consolidation-of-banks-and-acceleration-of-branch-closures-across-america/?utm_source=Triggermail&utm_medium=email&utm_campaign=BankIn%20Briefing%2003062023&utm_term=Banking%20Innovation%20Briefing%20Active)
- 16 The lender for PayPal Working Capital and PayPal Business Loan is WebBank.
- 17 Internal analysis of PayPal data for FY2022 as compared against FDIC Bank Branch Counts for the same period.
- 18 Internal analysis of PayPal data for FY2022 as compared against FFIEC census tract demographic data.
- 19 Internal analysis of PayPal data for FY2022 as compared against FFIEC census tract demographic data.
- 20 <https://advocacy.sba.gov/2023/03/14/whats-new-with-small-business/>
- 21 <https://advocacy.sba.gov/2023/03/14/whats-new-with-small-business/>
- 22 <https://www.federalreserve.gov/econres/notes/feds-notes/business-entry-and-exit-in-the-covid-19-pandemic-a-preliminary-look-at-official-data-20220506.html>
- 23 <https://tracktherecovery.org/>
- 24 <https://www.nfib.com/content/press-release/economy-small-business-optimism-declines-as-expectations-for-better-business-conditions-worsens-in-december/>
- 25 <https://www.uschamber.com/small-business/the-biggest-challenges-small-businesses-are-facing-right-now>
- 26 [https://eig.org/2022-business-formation/?utm\\_source=newsletter&utm\\_medium=email&utm\\_campaign=newsletter\\_axiosmacro&stream=business](https://eig.org/2022-business-formation/?utm_source=newsletter&utm_medium=email&utm_campaign=newsletter_axiosmacro&stream=business)
- 27 <https://www.fundera.com/blog/what-percentage-of-small-businesses-fail#:~:text=20%25%20of%20small%20businesses%20fail,their%2010th%20year%20in%20business.>
- 28 <https://helloalice.com/blog/small-business-financing-options/>
- 29 <https://www.cnbc.com/2022/12/14/fed-rate-hike-pushes-business-loans-over-10percent-for-first-time-since-2007.html>
- 30 <https://www.cnbc.com/2022/12/14/fed-rate-hike-pushes-business-loans-over-10percent-for-first-time-since-2007.html>
- 31 <https://www.federalreserve.gov/data/sloos/sloos-202301.htm>
- 32 <https://finance.yahoo.com/news/us-bank-lending-slumps-most-210839551.html>

- 33 <https://apnews.com/article/credit-lending-banks-rates-inflation-federal-reserve-ec294b3909e85a7e296b3ce7f5d87e09>
- 34 <https://www.imf.org/en/Publications/GFSR>
- 35 <https://www.reuters.com/markets/us/feds-jefferson-still-learning-impact-tighter-monetary-policy-2023-03-27/>
- 36 <https://www.federalreserve.gov/publications/2022-october-availability-of-credit-to-small-businesses.htm>
- 37 <https://smallbiztrends.com/2022/03/biz2credit-lending-index-report-small-business-loans-march-2022.html>
- 38 <https://fedguy.com/credit-boom/#more-5716>
- 39 <https://www.imf.org/en/Publications/GFSR>
- 40 <https://www.aba.com/news-research/analysis-guides/aba-credit-conditions-index>
- 41 <https://www.moodysanalytics.com/risk-perspectives-magazine/-convergence-risk-finance-accounting-cecl/principles-and-practices/future-of-small-business-lending>
- 42 <https://www.moodysanalytics.com/risk-perspectives-magazine/-convergence-risk-finance-accounting-cecl/principles-and-practices/future-of-small-business-lending>
- 43 <https://www.monjaco.com/blog/small-business-lending-the-profit-puzzle-facing-commercial-banks/>
- 44 [https://ncrc.org/the-great-consolidation-of-banks-and-acceleration-of-branch-closures-across-america/?utm\\_source=Triggermail&utm\\_medium=email&utm\\_campaign=BankIn%20Briefing%2003062023&utm\\_term=Banking%20Innovation%20Briefing%20Active](https://ncrc.org/the-great-consolidation-of-banks-and-acceleration-of-branch-closures-across-america/?utm_source=Triggermail&utm_medium=email&utm_campaign=BankIn%20Briefing%2003062023&utm_term=Banking%20Innovation%20Briefing%20Active)
- 45 <https://www.fdic.gov/analysis/household-survey/index.html>
- 46 <https://www.philadelphiafed.org/-/media/frbp/assets/working-papers/2022/wp22-14.pdf>
- 47 Internal analysis of PayPal Working Capital and PayPal Business Loan data.
- 48 Internal analysis of PayPal Working Capital and PayPal Business Loan data for FY2022.
- 49 Internal analysis of PayPal Working Capital and PayPal Business Loan data for FY2022.
- 50 Results or experiences may vary substantially across businesses.
- 51 [https://www.newyorkfed.org/medialibrary/media/smallbusiness/DoubleJeopardy\\_COVID19andBlackOwnedBusinesses](https://www.newyorkfed.org/medialibrary/media/smallbusiness/DoubleJeopardy_COVID19andBlackOwnedBusinesses)
- 52 <https://www.fundera.com/blog/racial-funding-gap>
- 53 <https://archive.mbda.gov/page/executive-summary-disparities-capital-access-between-minority-and-non-minority-businesses.html>
- 54 [https://www.fedsmallbusiness.org/-/media/project/smallbizcred-ittenant/fedsmallbusinesssite/fedsmallbusiness/files/2022/2022-sbcs-firms-owned-by-people-of-color.pdf?sc\\_lang=en&hash=EE100DBAAEE6392EA3B41189F1C4CCDB](https://www.fedsmallbusiness.org/-/media/project/smallbizcred-ittenant/fedsmallbusinesssite/fedsmallbusiness/files/2022/2022-sbcs-firms-owned-by-people-of-color.pdf?sc_lang=en&hash=EE100DBAAEE6392EA3B41189F1C4CCDB)
- 55 <https://www.brookings.edu/research/black-owned-businesses-in-u-s-cities-the-challenges-solutions-and-opportunities-for-prosperity/>
- 56 <https://publicpolicy.paypal-corp.com/sites/default/files/2021-11/PP-Reducing-the-Racial-Financial-Health-Gap.pdf>
- 57 Internal analysis of PayPal Working Capital and PayPal Business Loan data for FY2022.
- 58 <https://www.chase.com/business/knowledge-center/manage/blo-2022>
- 59 <https://www.brookings.edu/blog/the-avenue/2022/01/04/micro-businesses-flourished-during-the-pandemic-now-we-must-tap-into-their-full-potential/>
- 60 <https://www.mckinsey.com/bem/our-insights/corporate-commitments-to-racial-justice-an-update>
- 61 Internal analysis of PayPal Working Capital and PayPal Business Loan data for FY2022.
- 62 <https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20230322.pdf>
- 63 <https://www.philadelphiafed.org/calendar-of-events/fintech-and-the-new-financial-landscape>