



**Connecting Entrepreneurial Communities
Conference**

Business Start-Up Financing Resources

Thursday, May 30, 2024

MISSION

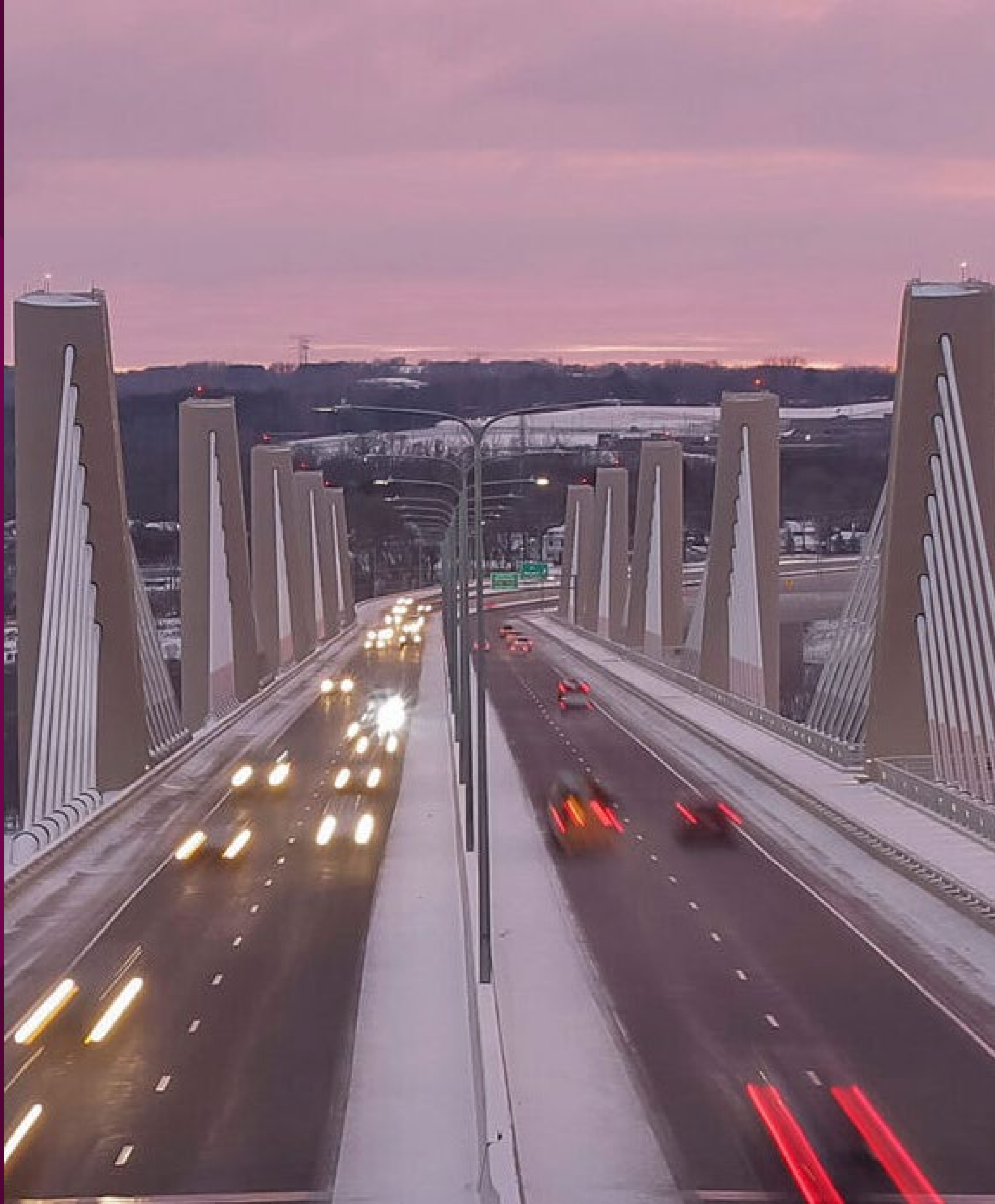
WEDC's mission is to strategically invest in Wisconsin to enhance the economic well-being of people and their businesses and communities.

VISION

WEDC's vision is an Economy for All, where every Wisconsinite has the opportunity to thrive.

***CREATING AN
ECONOMY FOR ALL,
WHERE EVERY WISCONSINITE HAS
THE OPPORTUNITY TO THRIVE***





Office of Rural Prosperity

Vision:

Foster vibrant, prosperous and resilient rural communities across Wisconsin. The Office provides a one-stop shop to help rural stakeholders navigate programs and resources serving rural communities and businesses.

Rural Small Businesses

Lessons from the Blue Ribbon Commission's 'Rural Voices Report'

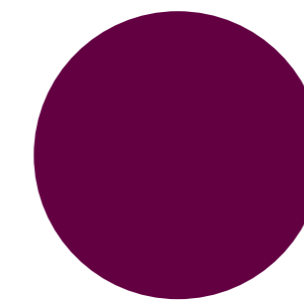
- Small business is big business in rural Wisconsin. Locally owned and grown businesses are more committed to the local community.
- Access to investment capital and financing remains critical to business formation and growth.
- Cross-community and cross-business collective efforts are strengthening small business in some rural Wisconsin areas.
- Cooperatives provide numerous benefits to the Rural economy

"Trying to get businesses from outside to locate here is not our low-hanging fruit. Our low-hanging fruit is businesses with 85-year-old owners who are going to transition."

- Door County resident

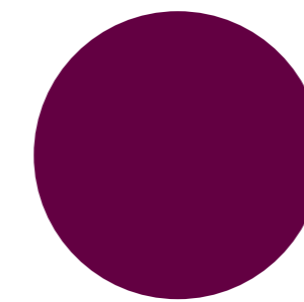


Who is who in rural lending?



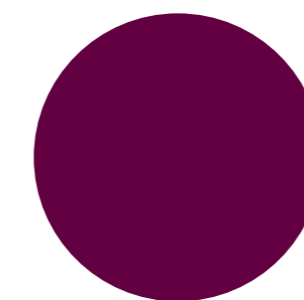
Community Development Finance Institutions (CDFIs)

Lenders that prioritize fair and responsible lending to rural, Native, and underserved communities. They may be banks, credit unions, nonprofit organizations, or venture capital funds.



SBA Lenders

The Small Business Association (SBA) reduces risk for lenders by backing loan products to make it easier for small business owners to access capital.

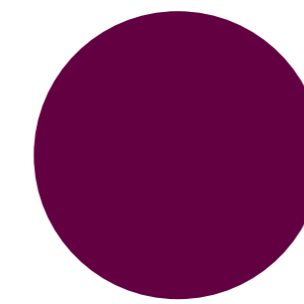


Revolving Loan Funds

Local or regional funds that provide a variety of small business lending products. Typically, County Economic Development Organizations, Regional Planning Commissions, or Regional Economic Development Organizations.

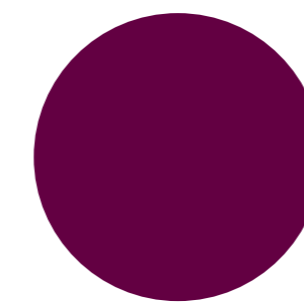


Who is who in rural investing?



Angel Investors

Typically, a wealthy person who provides capital and mentoring to a small business in exchange for an ownership position within the business.



Private Equity Investors

High net worth individuals or firms that provide capital to businesses in exchange for a high rate of return on their investment.

Rural Business Stages and Capital Needs



Start Up Capital

Funds available for small businesses with 2 or fewer years of operations that assist with the costs needed to start a business. Business typically needs a clear business plan to share with potential lenders or investors.

- **Self or Family/Friends Funding**- Using personal savings, borrowing against assets, or asking friends and family for funding.
- **Crowdfunding**- Raising money through small amounts from a large number of people.
- **Early Stage Venture Capital**- Equity financing available for businesses with high growth potential. Typically requires a high rate of return.
- **Microlending**- Loans typically less than \$50K that can be used for start up expenses.
 - SBA
 - KIVA
 - Revolving Loan Funds/CDFIs
 - Community Investment Circles
- **Real Estate Investment Cooperatives** – Community ownership model for commercial real estate that give local control for revitalization and affordability.

Growth Financing

- **Revolving Loan Funds-** Often used for property improvements, machinery and equipment, façade and building renovation, and operating capital.
- **SBA 7(a) Loan-** Up to \$5 million with a term of 10 years for equipment or 25 years for real estate.
- **Expansion Stage Venture Capital-** Funding to create new products, expand to new markets, or acquire other businesses.
- **CDFI Loans:** Financing products may range from \$50,000 to \$5 million. Uses typically include working capital, real estate acquisition, and equipment purchase.

Characteristics of a business ready for growth:

- Typically two or more years of operations for debt financing. Often, more established to access expansion stage venture capital.
- Profitable business with financial records and profit and loss statements to demonstrate profitability. A list of company and personal assets.
- Has a clear plan for scaling the business, creating efficiencies, or new product development.

Working Capital

Provides short-term liquidity for a business to maintain day to day operations.

- **Revolving Loan Funds-** May offer working capital for inventory and direct labor costs to make payroll.
- **SBA Loans-** Offers working capital products and loans can be used refinance other debt.
- **CDFIs-** May offer lines of credit and working capital loans either as stand alone products or as part of a larger loan deal.

Typically, working capital loans do not exceed 10% of company revenues.

Succession Planning Funding

Models to plan for the long-term sustainability of your business.

- Apply for a loan or line of credit to finance a succession plan
- Receive equity for the sale of your business
- Apply for a grant or work with a technical assistance provider to consider conversion to an employee ownership or a cooperative model.

WEDC Programs

Commercial Real Estate

- Site Assessment Grant/Brownfield Grant Programs
- Community Development Investment Grant Program
- Idle Sites Redevelopment Program
- Historic Tax Credits

Small Business Ecosystem Development

- Entrepreneurial Partnership Grant
- Capital Catalyst
- Diverse Business Development

Technical Assistance

- SizeUpWI
- Start in Wisconsin



Small Business Ecosystem Building

Capital Catalyst –

Matching grants ranging from \$50,000 to \$500,000 to organizations or communities that manage a seed fund to provide capital to high-growth startups and emerging growth companies, or support R&D-to-commercialization efforts.

Local funds may provide grants, loans and/or investments in startups and early-stage and innovative small businesses that operate in their service area and repayments revolve to create a supportive environment for business creation and development.

Entrepreneurship Partnership Grants (EPG)

Provides grants to eligible nonprofits so they can, in turn, provide funding support and technical assistance to startups. The program has grants available for new or pilot projects and for established projects with demonstrated results. The program operates on a competitive basis and will have multiple application cycles throughout the year.



Cooperative Development Grants

Grants to support the development of new and existing cooperatives in Wisconsin.

WHO IS ELIGIBLE TO APPLY?

- An existing cooperative operating in Wisconsin
- Businesses looking to convert to the cooperative business model
- Any group of individuals actively working towards legal cooperative status in Wisconsin

WHAT CAN GRANT FUNDS COVER?

- Applicants may use the funds to cover consulting fees for business planning, feasibility studies, legal services, and accounting services to help new or existing cooperatives become established or further develop.
- Only projects related to development are eligible. Salaries and supplies are NOT eligible costs.

WHAT ELSE DO I NEED TO KNOW?

- Each application must include an active quote from the consultant (or an attorney or accountant) with whom you will work.



Federal resources to support rural business development

➤ Rural Business Investment Program (USDA)

Supports equity investment needs in rural communities by licensing Rural Business Investment Companies (RBICs) which use equity raised to make venture capital investments to eligible rural businesses.

➤ Rural Business Development Grants (USDA)

Supports targeted technical assistance, training, and other activities that promote the development and expansion of small and emerging private businesses in rural areas.

➤ Rural Microentrepreneur Assistance (USDA)

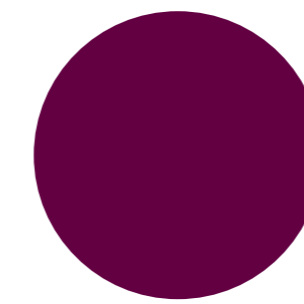
Provides loans and grants to organizations who provide microloans in rural communities through a Rural Microloan Revolving Fund and provides technical assistance to microloan borrowers and entrepreneurs.

➤ Rural Cooperative Development Grants (USDA)

Helps individuals and businesses start, expand or improve cooperatives in rural communities through USDA's Cooperative Development Centers.

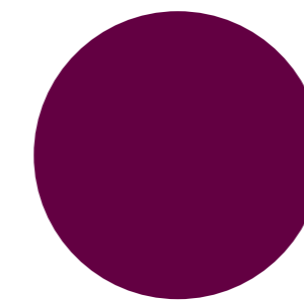


Growing the 1%: Resources for Rural Venture Capital



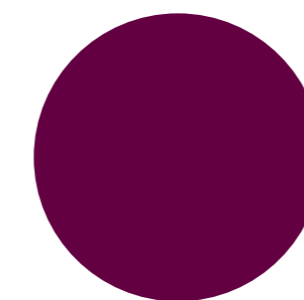
Center for Rural Innovation (CORI)

Works to create inclusive tech ecosystems in rural communities that support scalable entrepreneurship and tech job creation.



Doyenne Group

Provides training for investors and entrepreneurs to mobilize a community around scalable ventures led by women and marginalized entrepreneurs.



Wisconsin Investment Fund

Wisconsin is creating a \$50 million investment pool dedicated to fueling innovative small businesses

One last word of encouragement from the Rural Voices Report: Go Big! (And Break Down the Silos)

“Organize a ‘statewide system’ that provides rural small businesses with entrepreneurship training and coaching. WEDC, UW-Extension, REDOs, Cap Agencies, Chambers of Commerce, CDFIs, SBDC, community development credit unions, and others are “all in” in some way to spark entrepreneurship and small business growth in rural Wisconsin. How much stronger could they be if they were assembled into a transparent, non-duplicative entrepreneurial ecosystem infrastructure, easy for communities, businesses, and business dreamers to tap into and find the just-in-time technical expertise and resources they need when they need them?”

To see what makes Wisconsin a great state for business, personal, and professional fulfillment, visit **wedc.org**.

For general information on programs and available resources, visit **wedc.org/programs**

Website: **wedc.org** or **ruralwi.com**
Newsletters: **wedc.org/subscribe**



Small Business Attitudes Regarding Debt

Learnings from a Survey of Indiana Black Business Owners



**Connecting Entrepreneurial
Communities Conference**

May 30, 2024

Gar Kelley

Disclaimer

This presentation represents the views of the speakers and not necessarily those of Equity 1821, Black Onyx Management, the Federal Reserve Bank of Chicago or the Board of Governors of the Federal Reserve System.

The Federal Reserve System



- Conducts the nation's monetary policy
- Promotes the stability of the financial system
- Promotes the safety and soundness of individual financial institutions
- Fosters payment and settlement system safety and efficiency
- Promotes consumer protection and community development

Community Development & Policy Studies



- Promote fair access to credit and financial services
- Research issues that impact low- and moderate-income (LMI) communities
- Outreach efforts seek to :
 - Research
 - Convene
 - Connect

Our Time Together

- Project Overview
- A Look at the Data
- Select Takeaways

Motivation

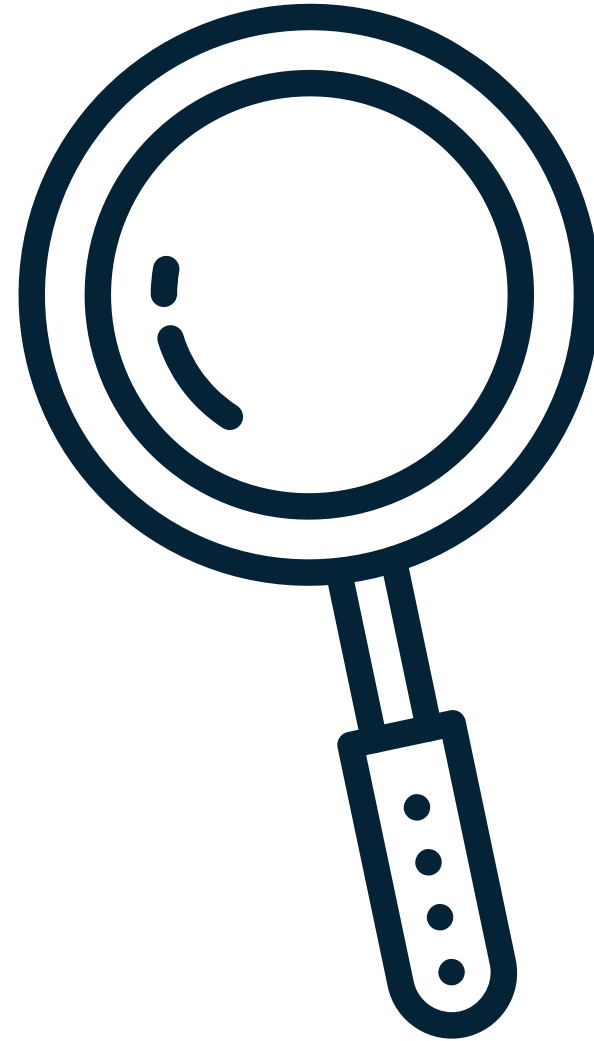
- Explore hypothesis that Black businesses in the Greater Indianapolis market may have an aversion to debt when seeking to capitalize their enterprises for growth and business success
- *Backdrop:*
 - *Black-owned businesses generate over \$140 billion annually, comparatively this is a drop in the bucket if credit was disbursed equitably*
 - *Research documents that borrower race has a significant impact on loan application decisioning and the resultant interest rate charge if approved*
 - *If a Black business owner and a White business owner have similar business and credit profiles, the Black business owner is less likely to get a credit loan.*
 - *40% of Black small businesses closed during Covid-19 which was attributed to the inequitable funding from the Paycheck Protection Program (PPP)*
 - *White business owners were twice as likely to receive PPP funding than Black business owners*

Questions

- Is the debt aversion among Black business owners a consequence of inequality?
- What is the black business owners' relationship with banks, banking histories, business loan activity and attitudes toward debt?

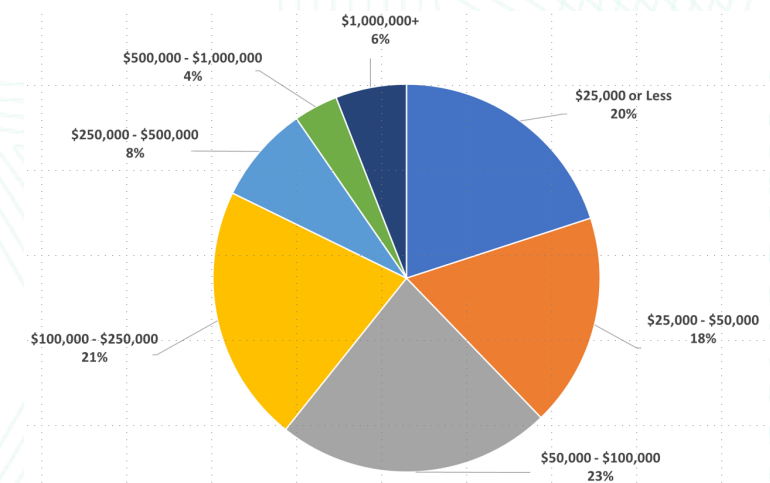
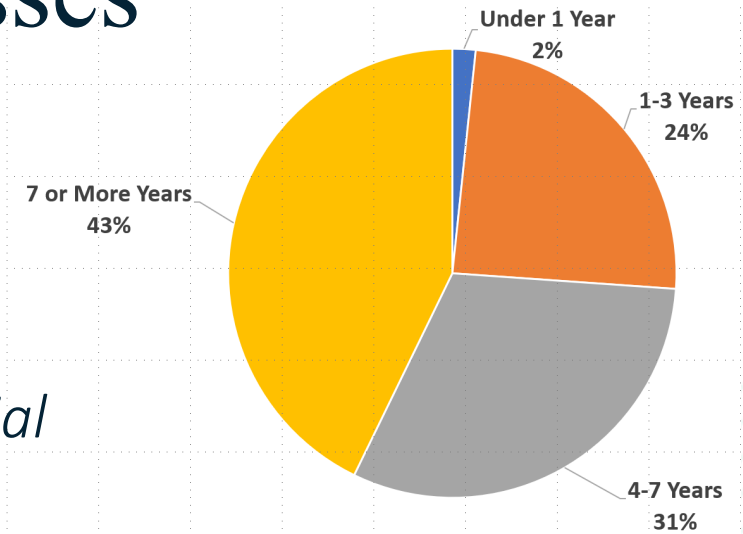
A Look at the Data

- About the Businesses
- Banking
- Debt Aversion



About the Businesses

- Years in business:
 - *7 years or less – 57% (3 years or less 26%)*
- Sector Served:
 - *Professional, Scientific, and Technical Svcs; Admin Support; Waste Mgmt.; Construction; Health & Social Assistance*
- Income:
 - *Less than \$50,000 – 38%*
 - *\$50,000 - \$100,000 – 23%*
 - *\$100,000 - \$250,000 – 21%*
 - *\$250,000 & higher – 26%*
- FTEs excluding the owner:
 - *2 or fewer employees – 67%*

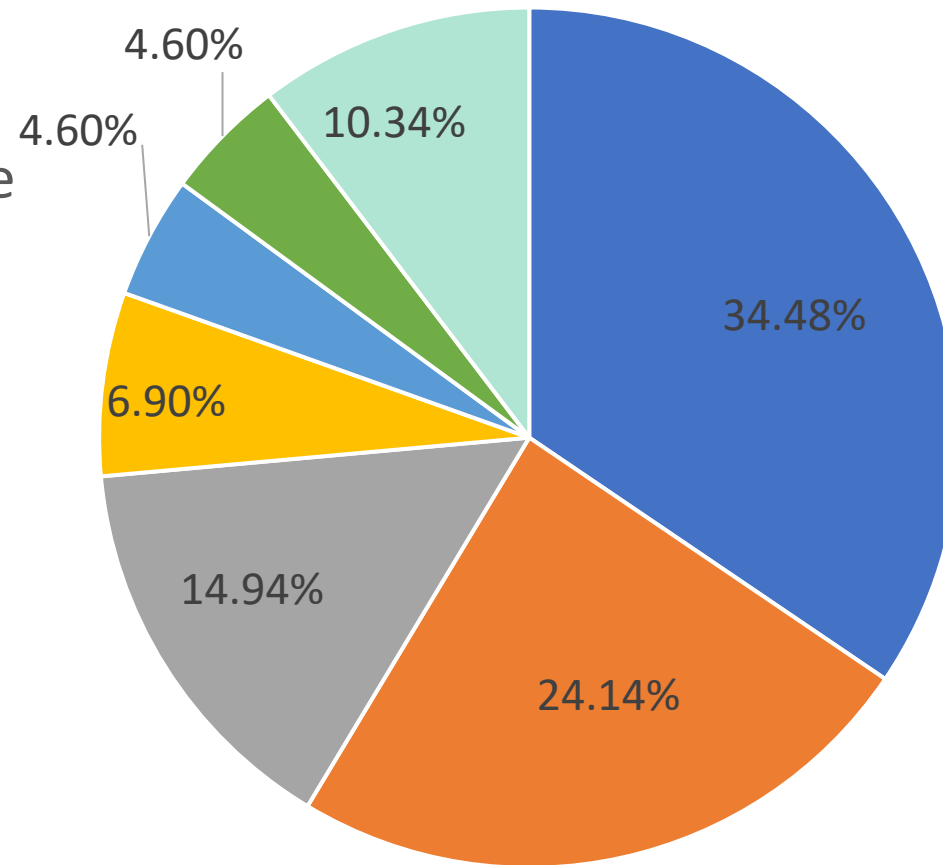


Banking Relationship

- Longstanding relationships with major banks & credit unions
 - *Few with business loan - use of personal, business account, credit cards –*
 - *48% unaware of banks loan decisioning process*
 - *71% never received a loan from primary bank*
 - *Over life of business only 40% received a loan from traditional bank*
 - *68% did not receive PPP loan*
- Future financing needs
 - *Line of credit for working capital and business expansion*

Banking: *primary reason for not applying for a loan*

- Did not want to accrue debt
- Did not think application would be approved
- Had sufficient financing
- Discouraged
- Application process too difficult
- Credit cost too high



Debt Aversion

- 72% claimed to be debt averse
- Higher household income and education level, debt aversion more likely
- Longer tenured business LESS debt averse
- Less debt averse business owner more likely to seek financing in 6-12 months

Focus Group

Objective

- Understand owners' resistance to accrue debt
- Provide opportunity to hear from a Black underwriter about loan process
- What banking system looks for in loan approval process

Process

- Moderated debt aversion conversation
- Loan application & approval presentation
- Open question & answer session
- Moderated post-presentation conversation

Focus Group

- Historical fear of debt
 - *Cultural aversion of any type of debt*
 - *Fear of inability to pay back debt*
 - *Having other debt, resistance to more*
- General distrust of the banking system
 - *History of U.S. banking system, source of distrust*
 - *History of harm to Blacks akin to medical system*
- Lack of knowledge about the process
 - *Not knowing what's needed to apply for a loan or different options available*
 - *Lack of knowledge surrounding the repayment process*

Focus Group: *Can education reduce debt aversion?*

- Participants fit the profile of maintaining debt aversion due to lack of knowledge
- Post banker presentation:
 - *More comfortably beginning conversations discussing the loan application process*
 - *Participants felt loan application not out of the question now,*
 - *Some felt first time a banker bothered to talk about business loan process – changed perspective*

Some Thoughts, Affirmations

- Getting people banked isn't enough – knowledge gap
 - *Longstanding clients may not understand the lending process*
- People outside of financial system
 - *Have distrust*
 - *Lack knowledge*
 - *Disengagement continues, reinforcing the above*
- Economic development professionals
 - *Share information with explanation for aha moments*
 - *Work to overcome client biases*
 - *Work to build trust*

Thank You

Further Questions

Gar Kelley – Garvester.Kelley@chi.frb.org

Appendix



Process/Methodology

- The Debt Aversion Survey is an online survey administered by Black Onyx Management
- The survey was administered from May 30 to June 30 gathering 180 responses from Black owned businesses in Indiana
- The survey results are being analyzed by the teams from Black Onyx Management and the Chicago Fed

Project Team

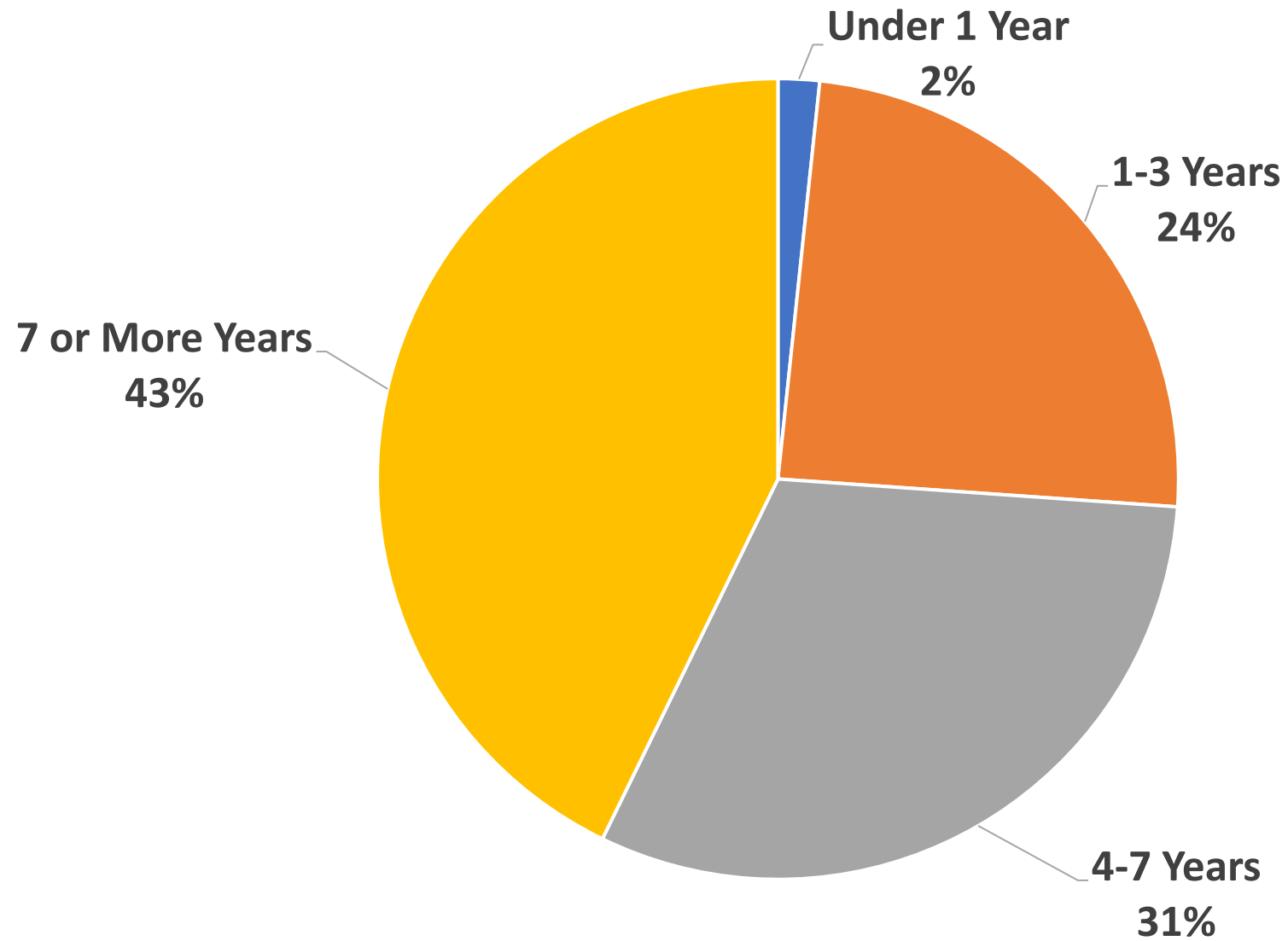
Equity 1821 / Black Onyx Management

- Rashawn Ray
- Rebecca Shankman
- Marshawn Wolley

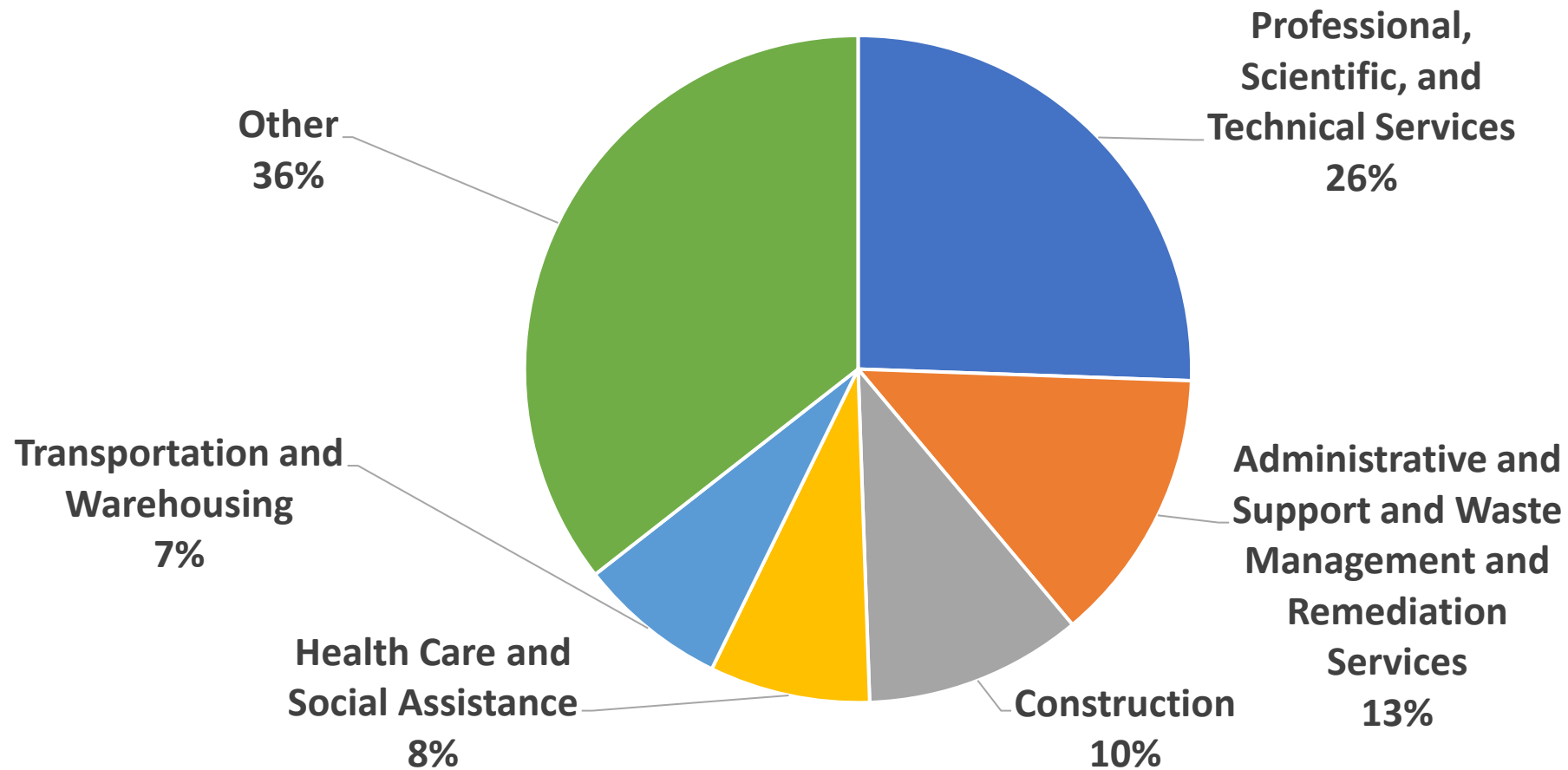
Federal Reserve Bank of Chicago

- Sarah Ahmad
- Maria Castro
- Max Jaffe
- Elise Jones
- Gar Kelley
- Jung Sakong

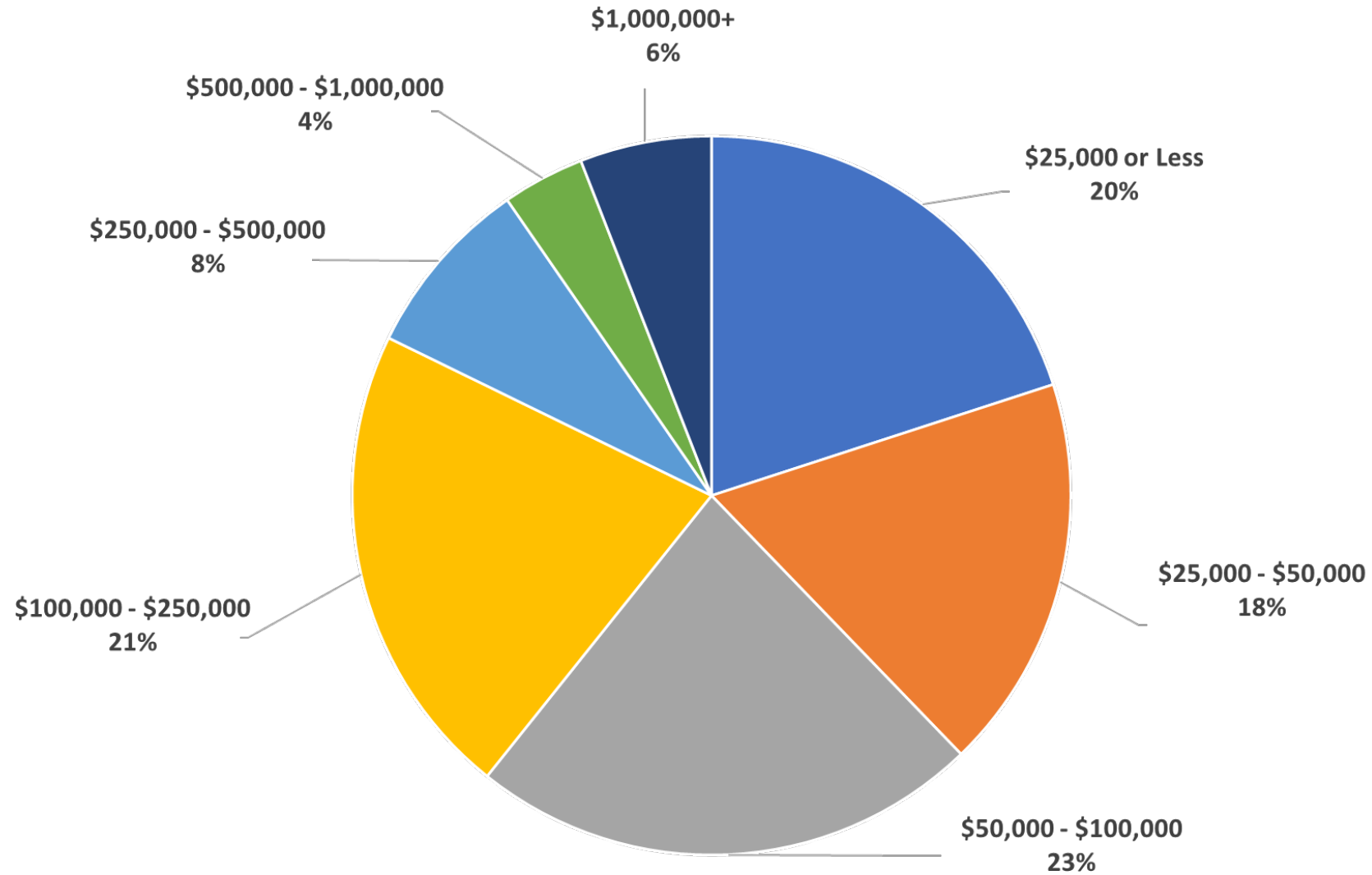
About the Business: *years in business*



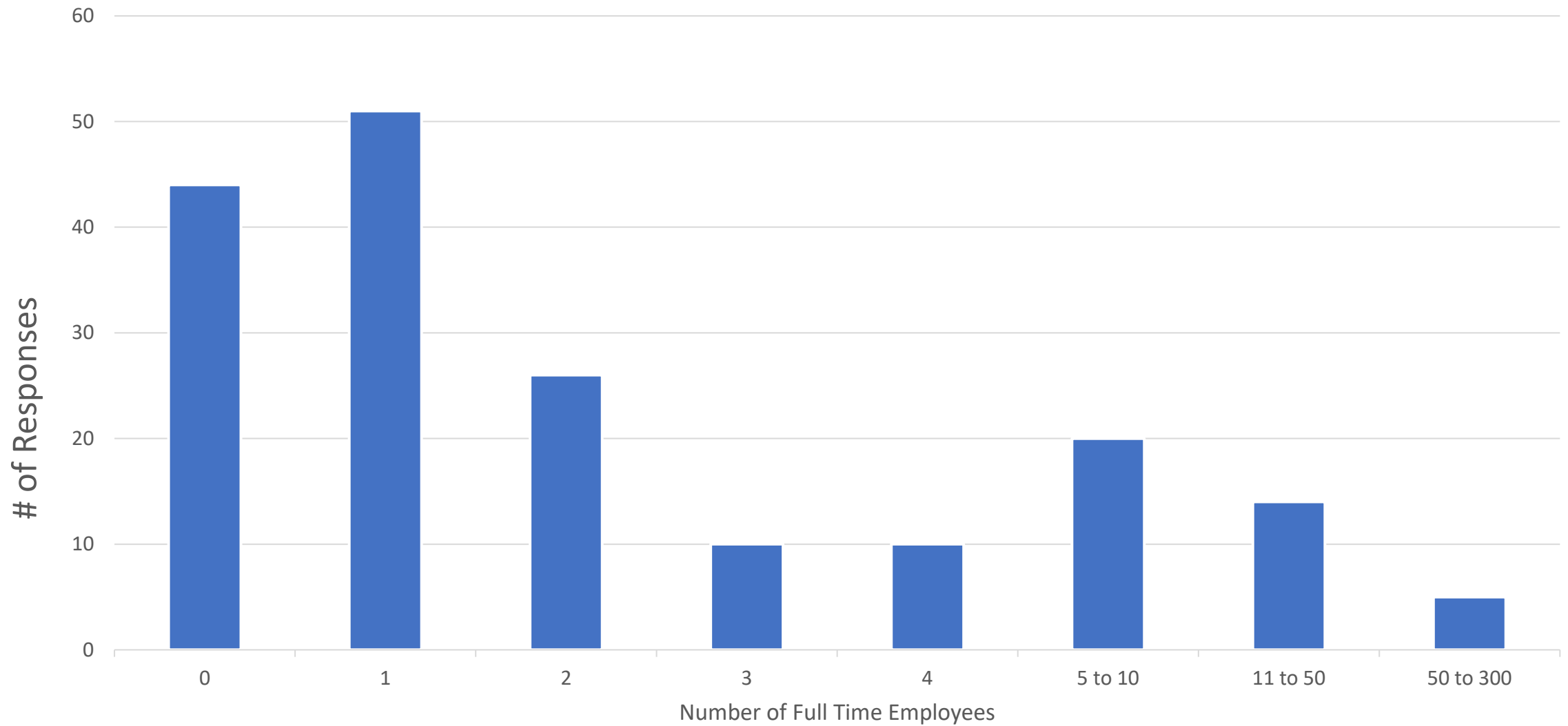
About the Business: *main income source*



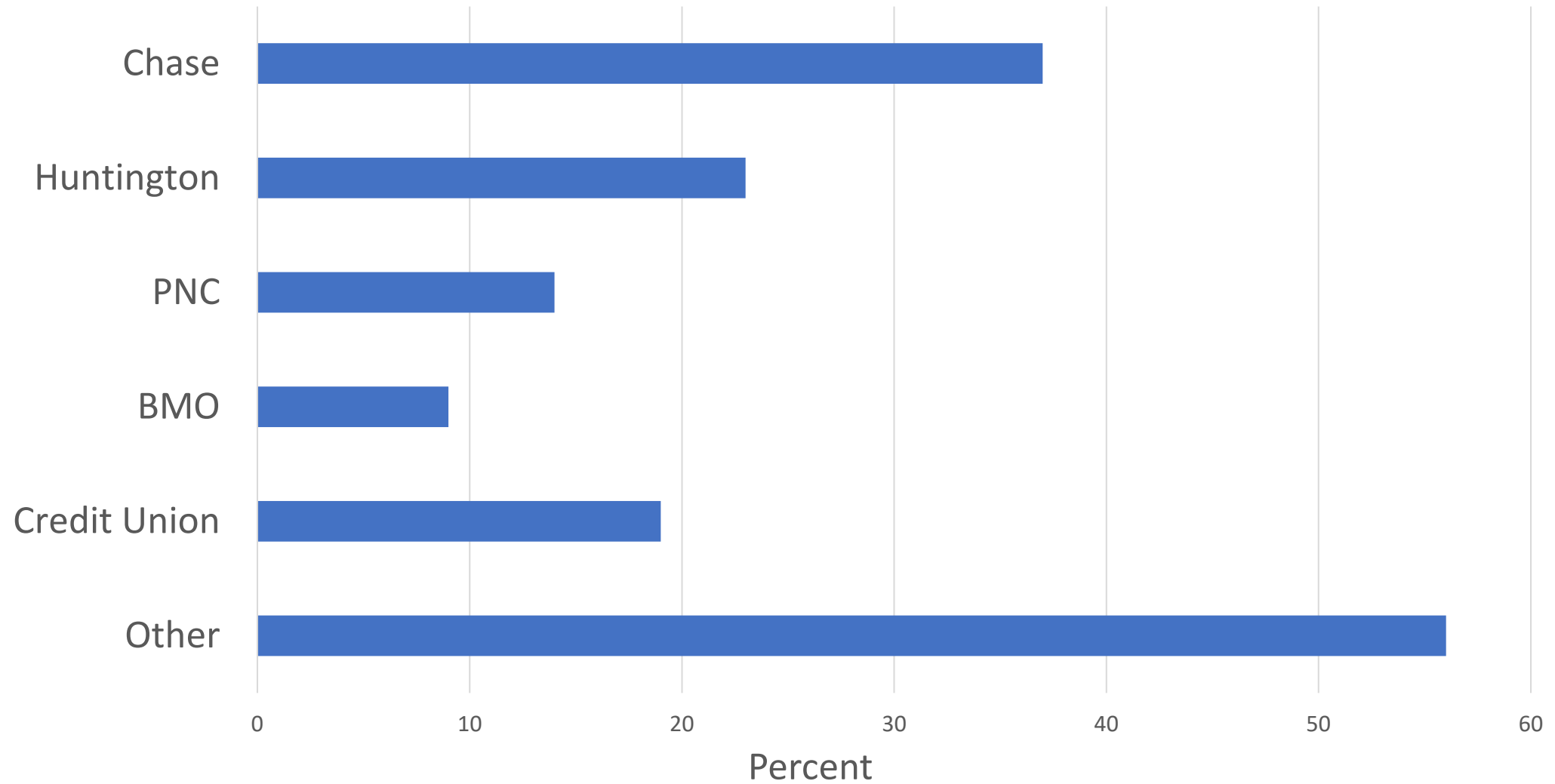
About the Business: *Income*



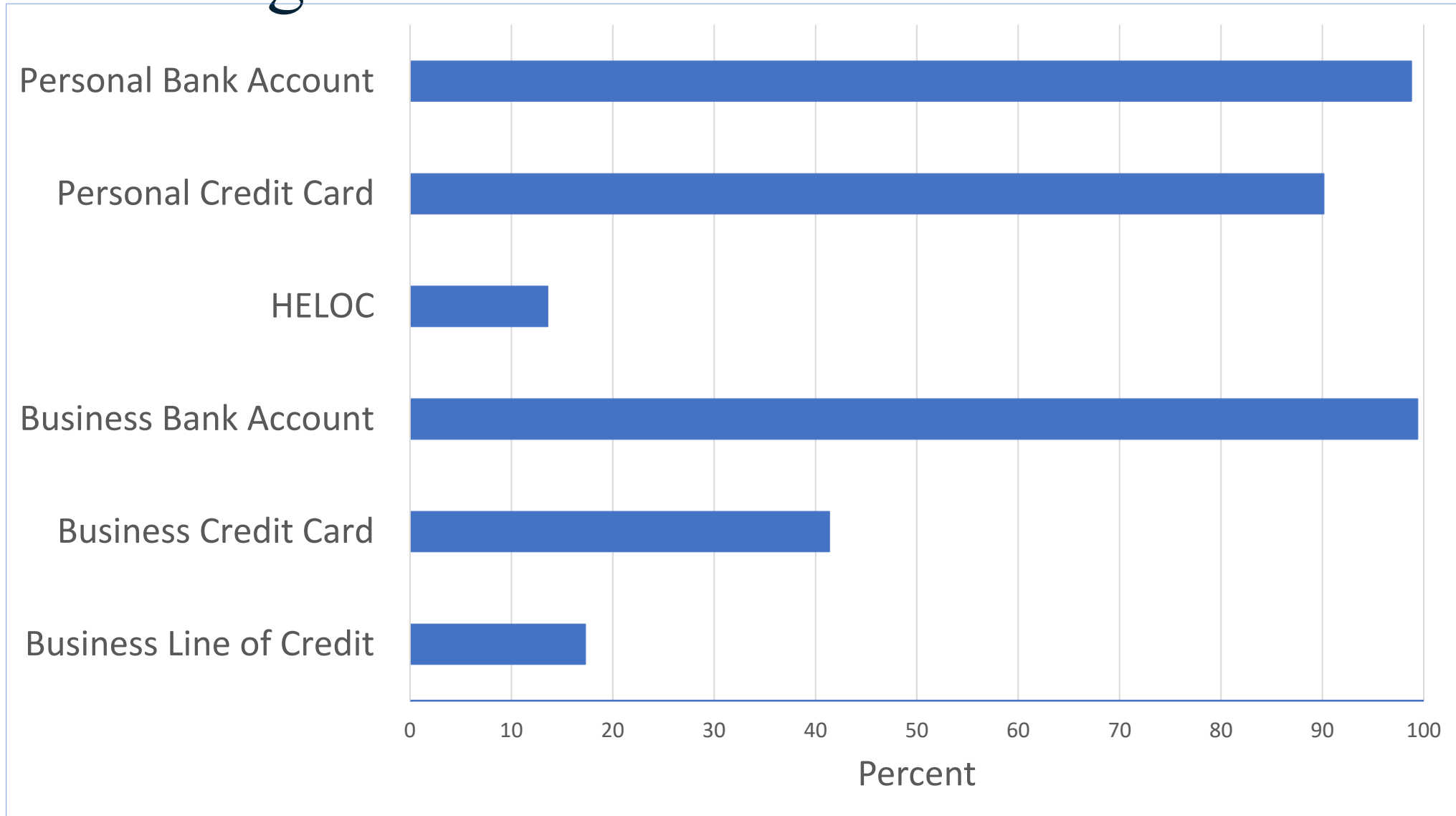
About the Business: *FTE excluding the owner*



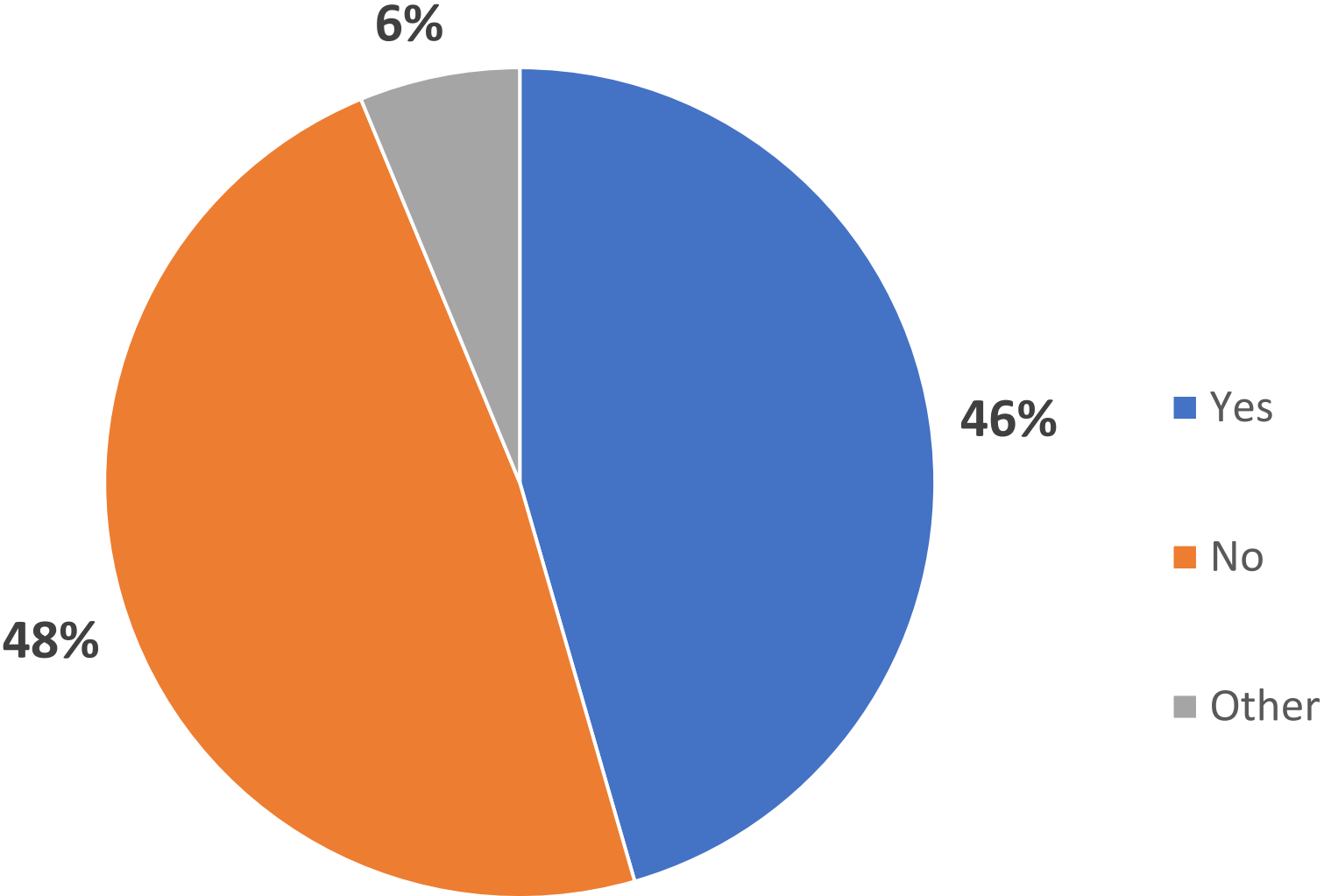
Banking: *primary bank*



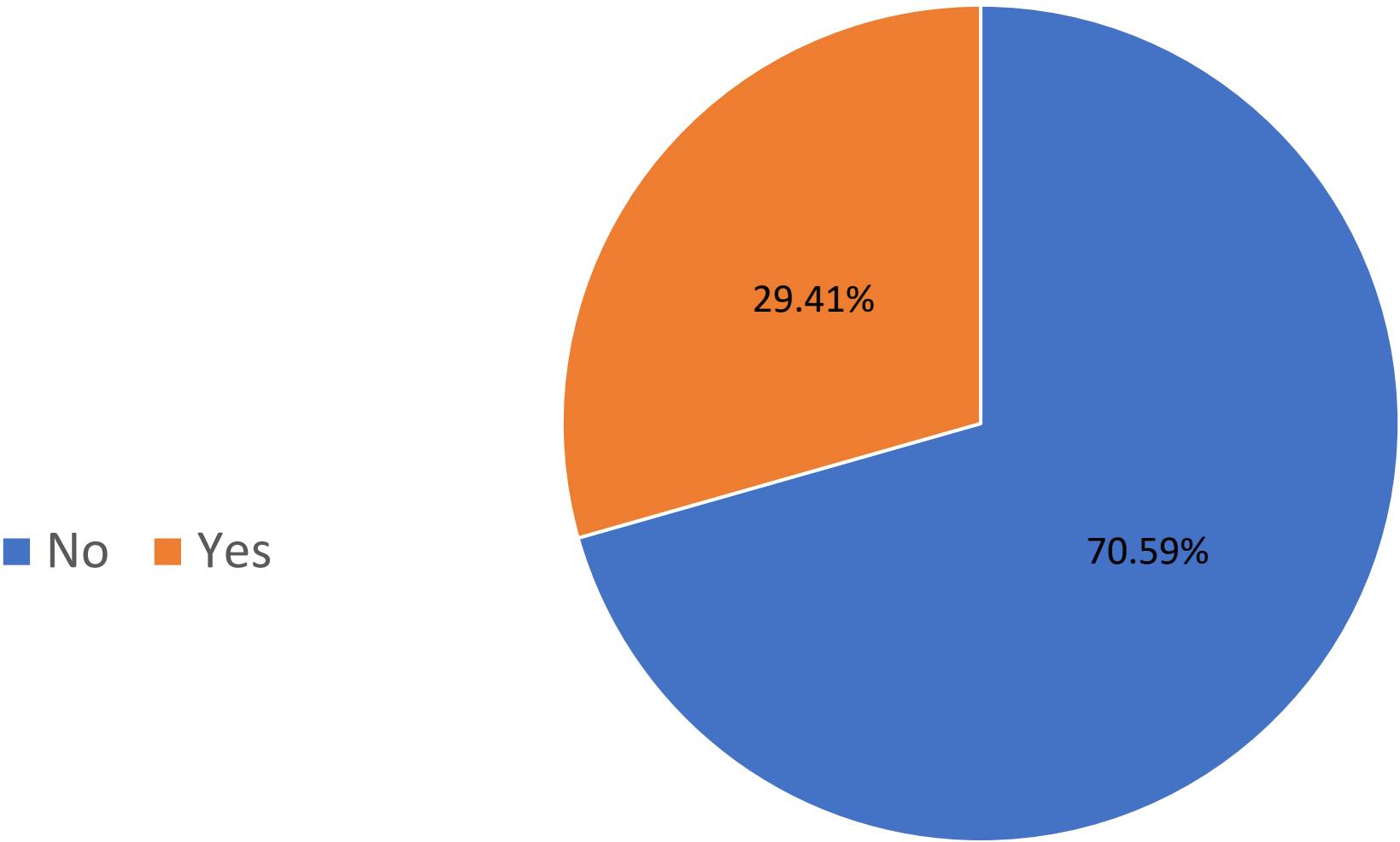
Banking: *bank credit services utilized*



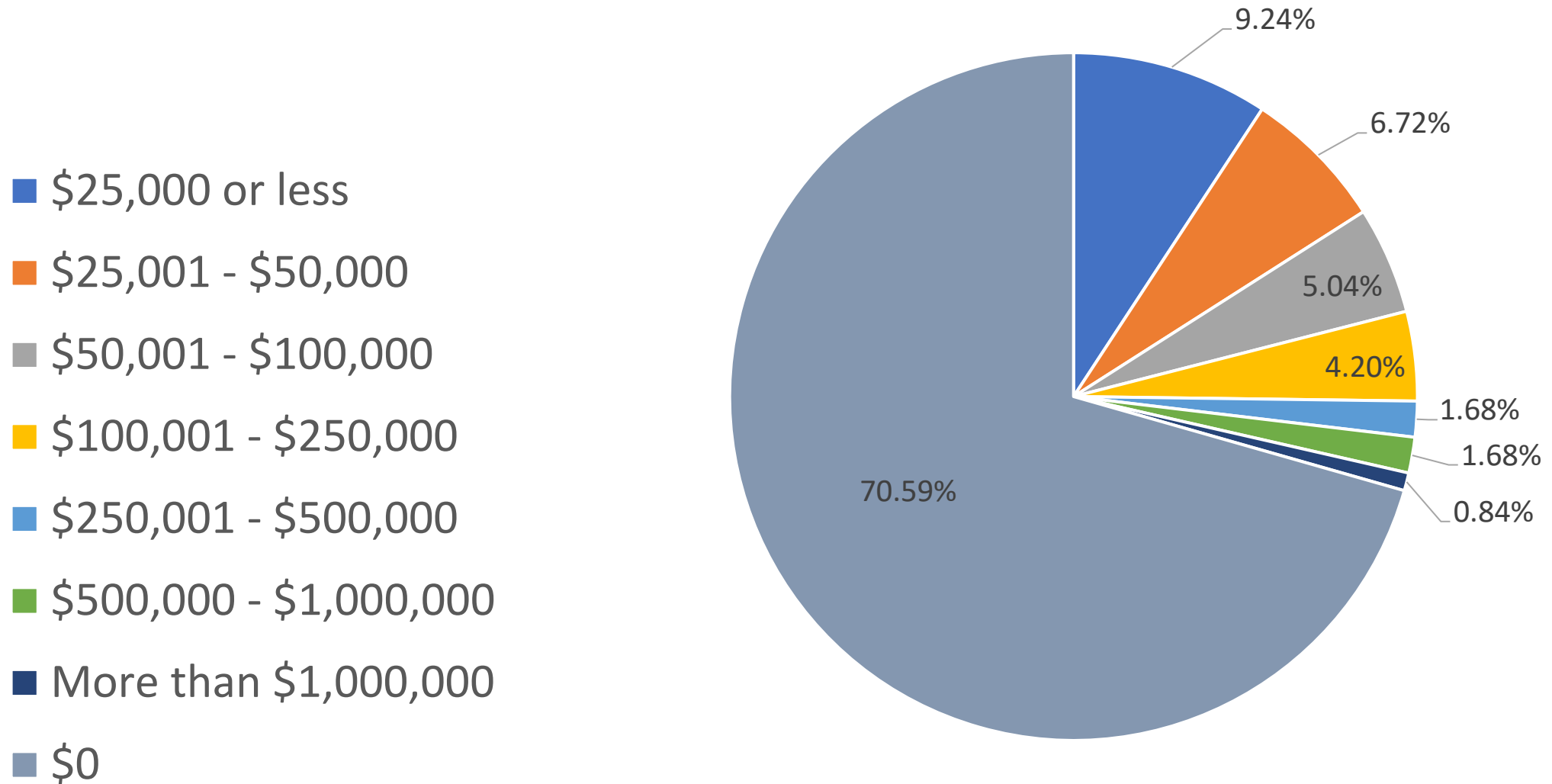
Banking: *knowledge of bank loan decisioning process*



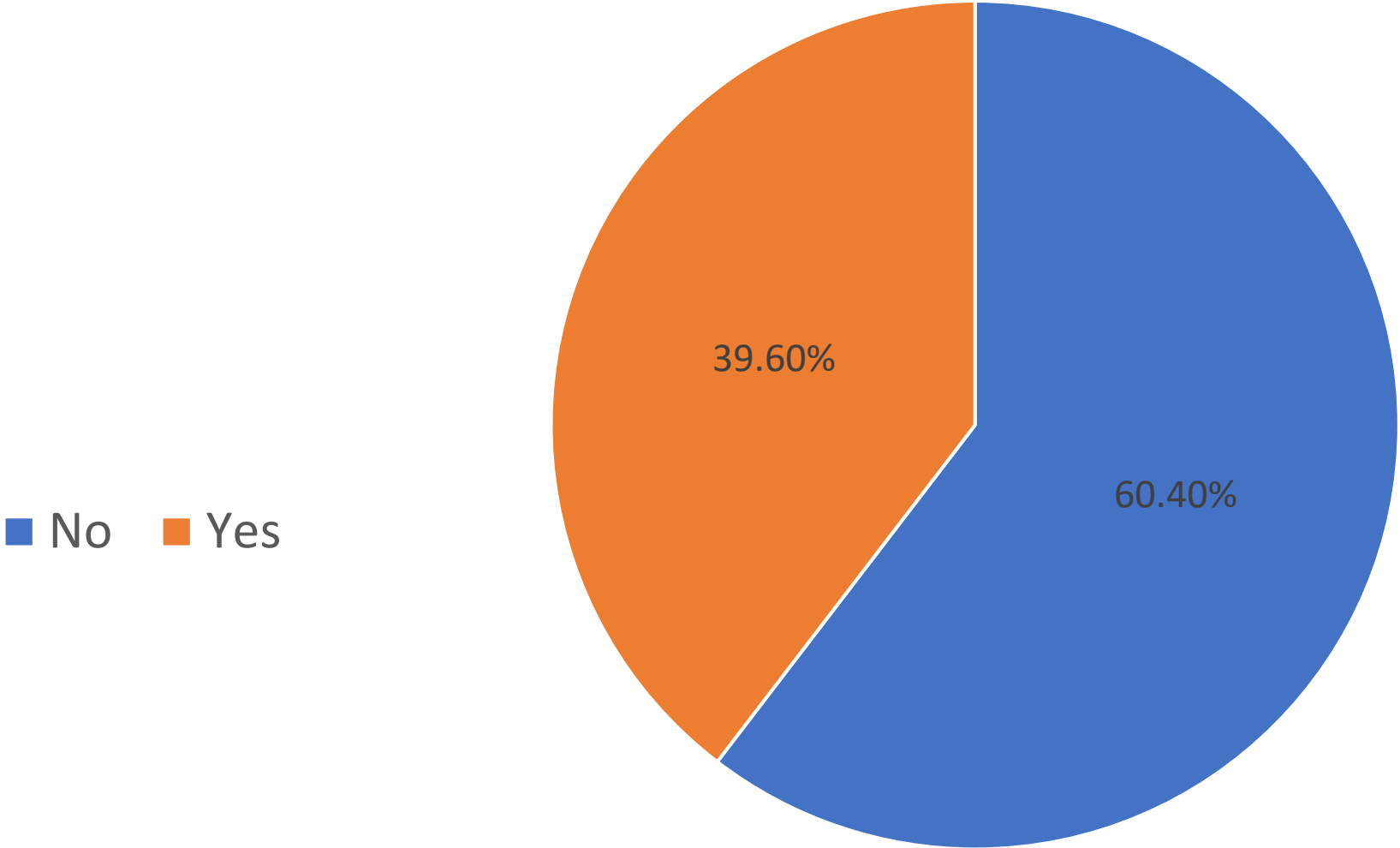
Banking: *received business loan from primary bank – excluding PPP*



Banking: *largest business loan to date from primary bank – excluding PPP loans*

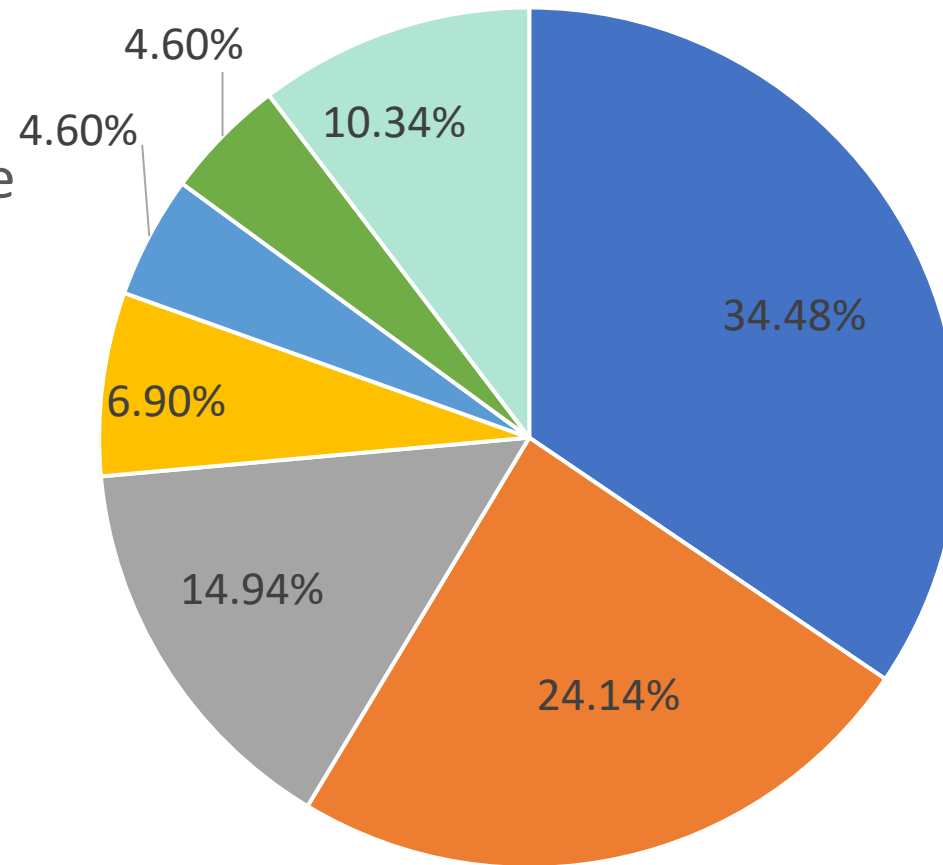


Banking: *received business loan from traditional bank – life of business*

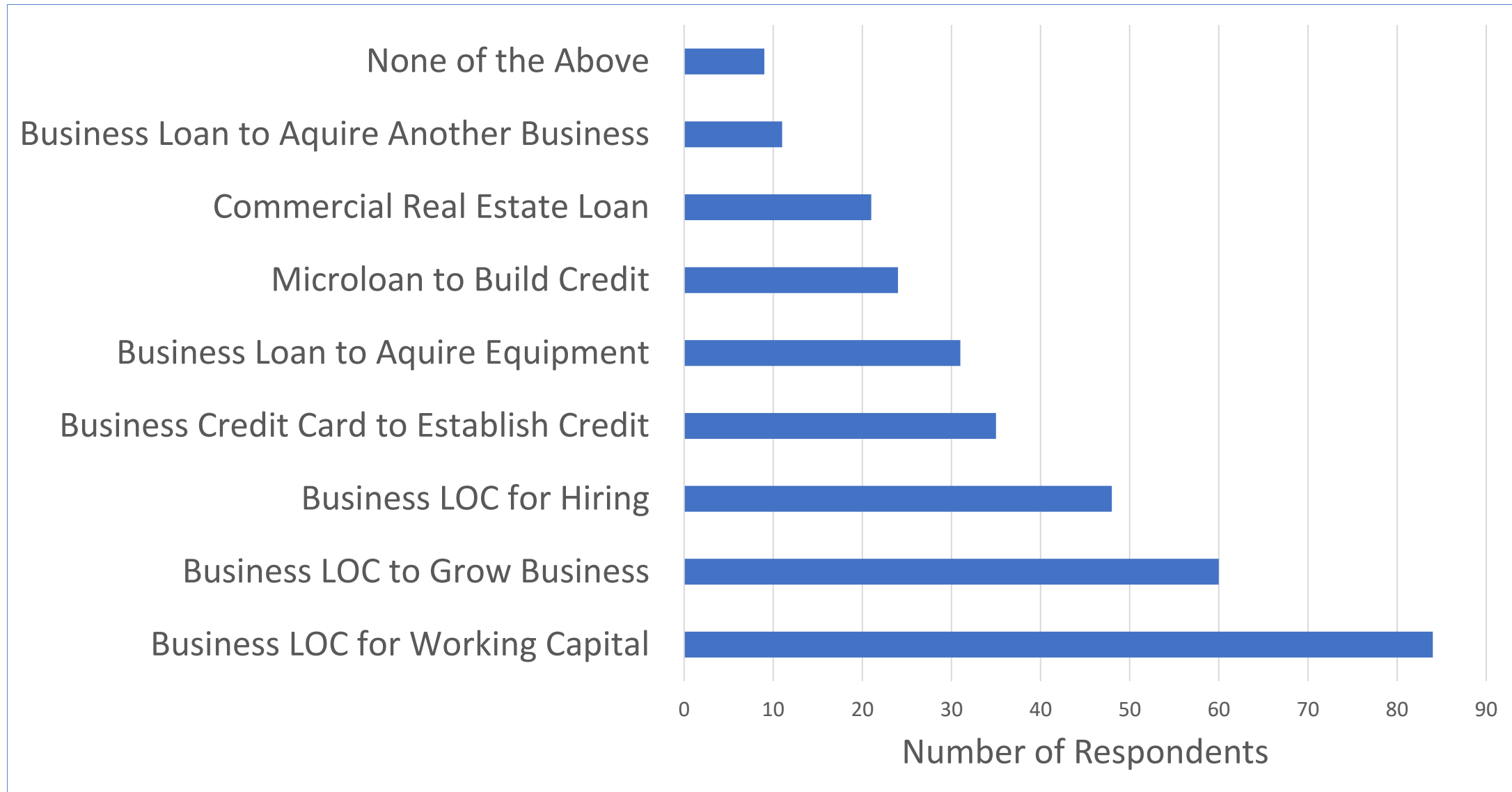


Banking: *primary reason for not applying for a loan*

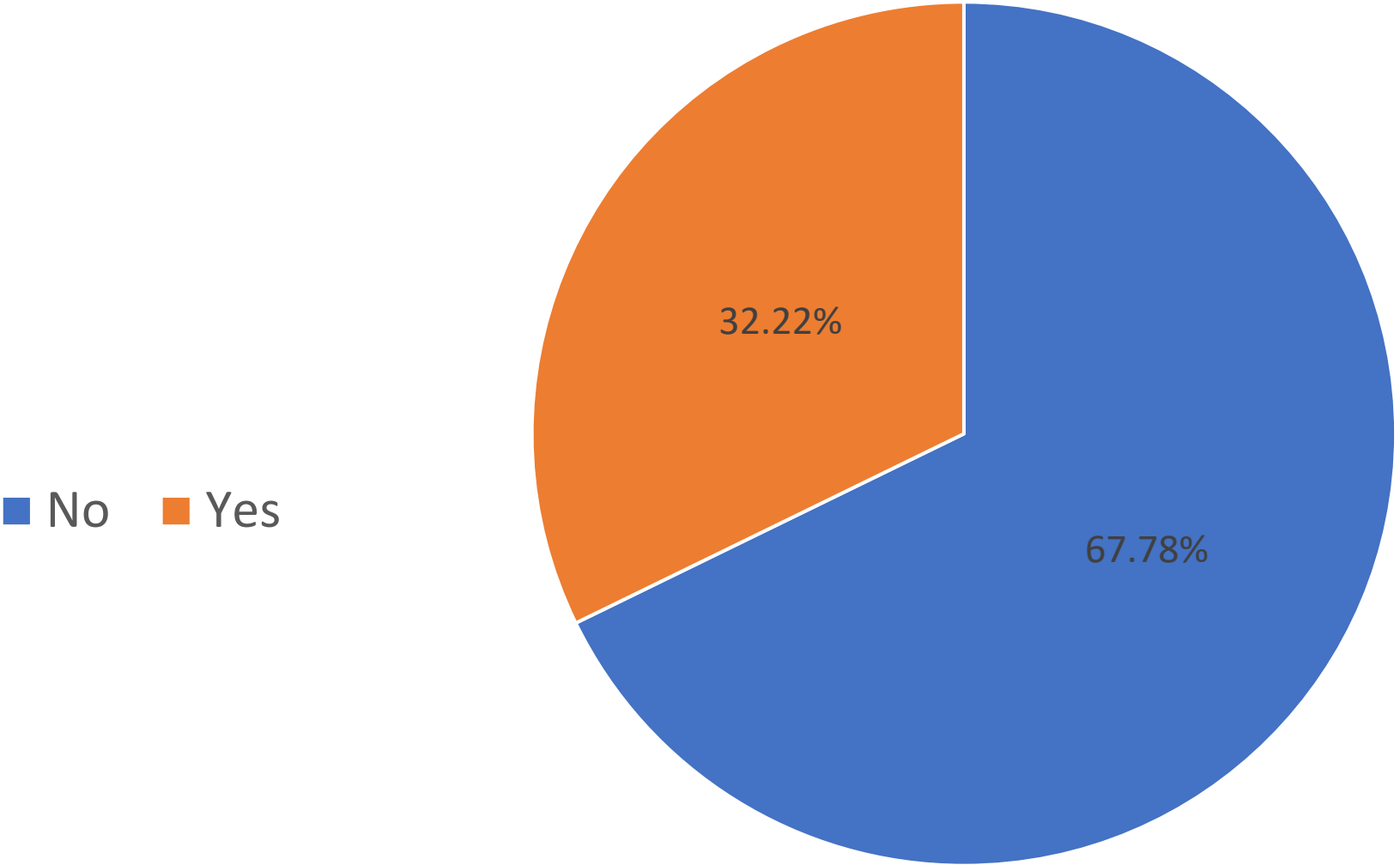
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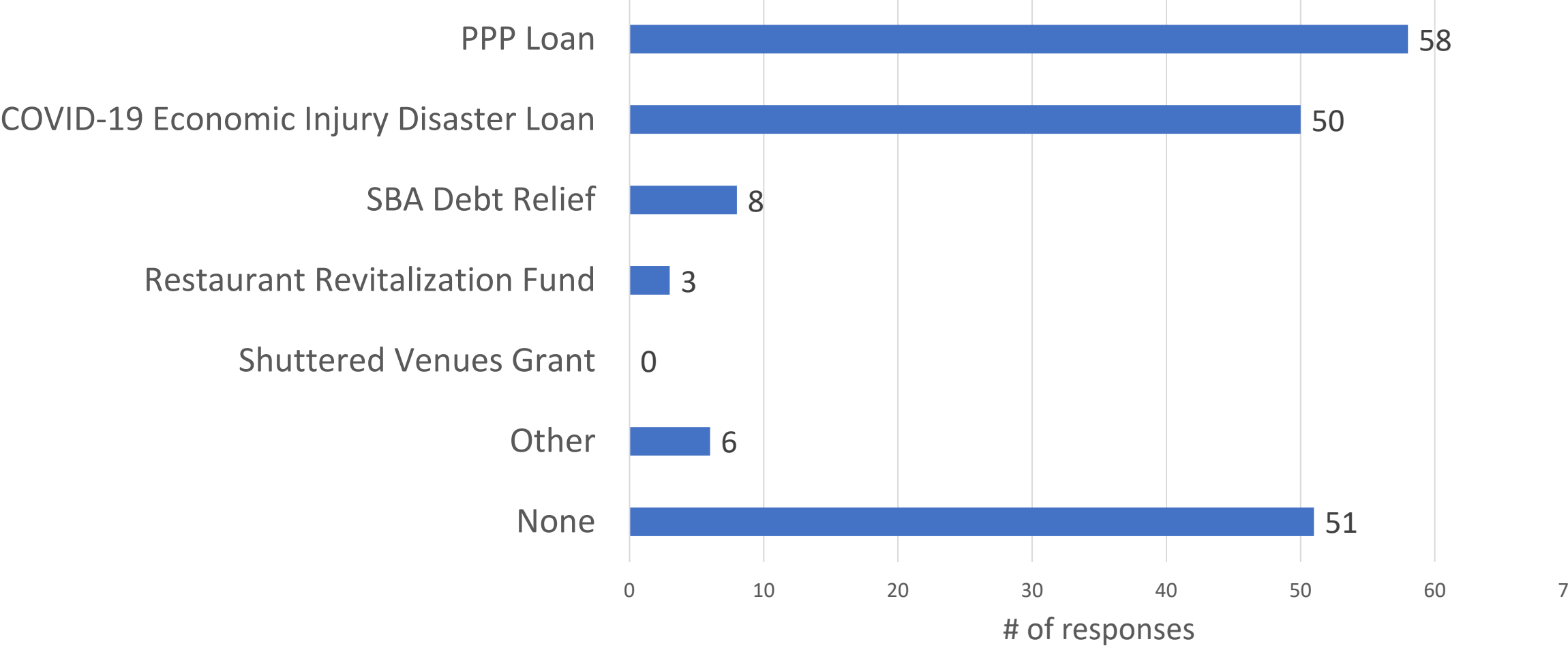
Banking: *financial products that best support growth in next 6 months*



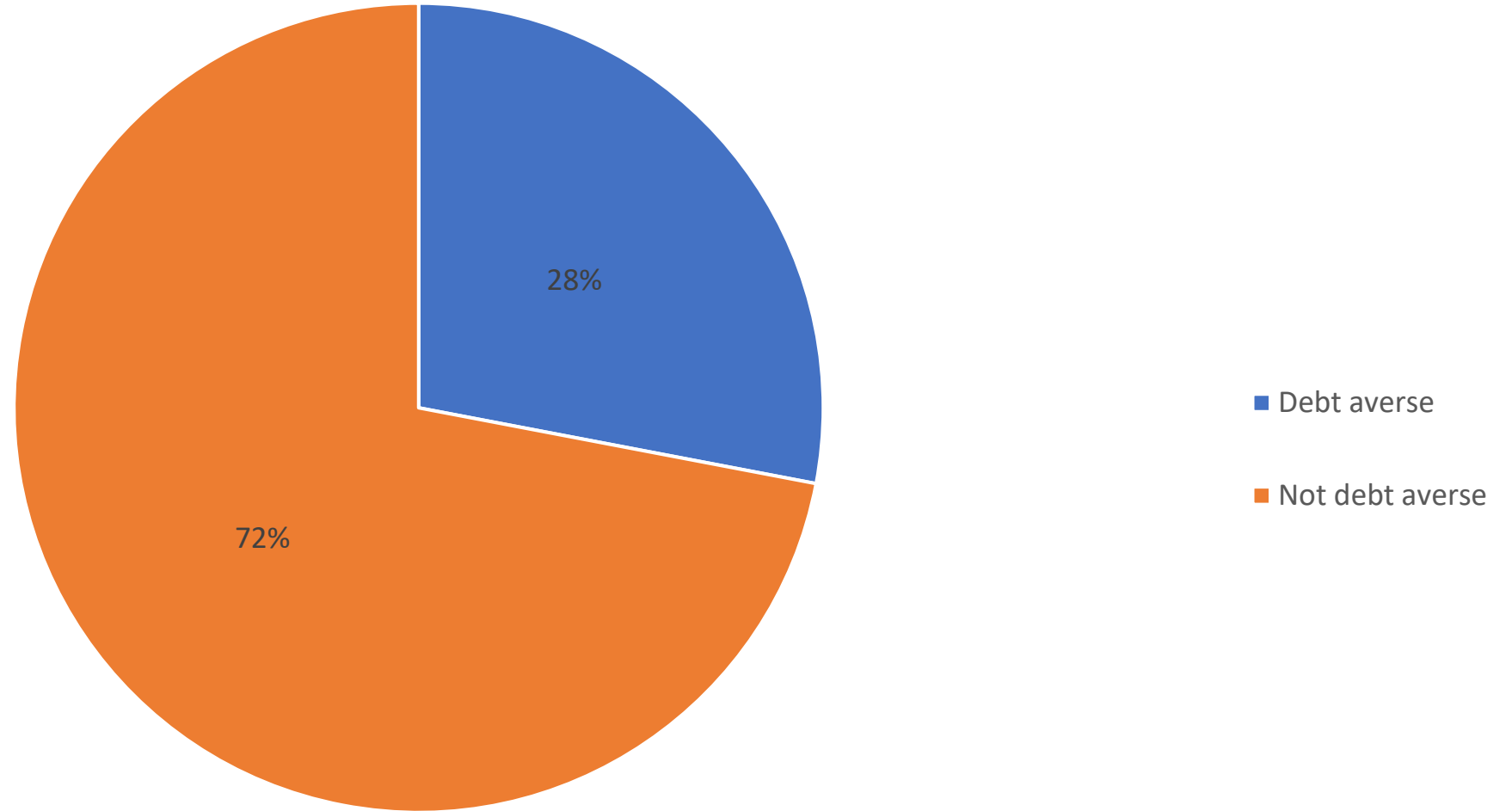
Banking: *business receive pandemic related financial assistance from PPP loan*



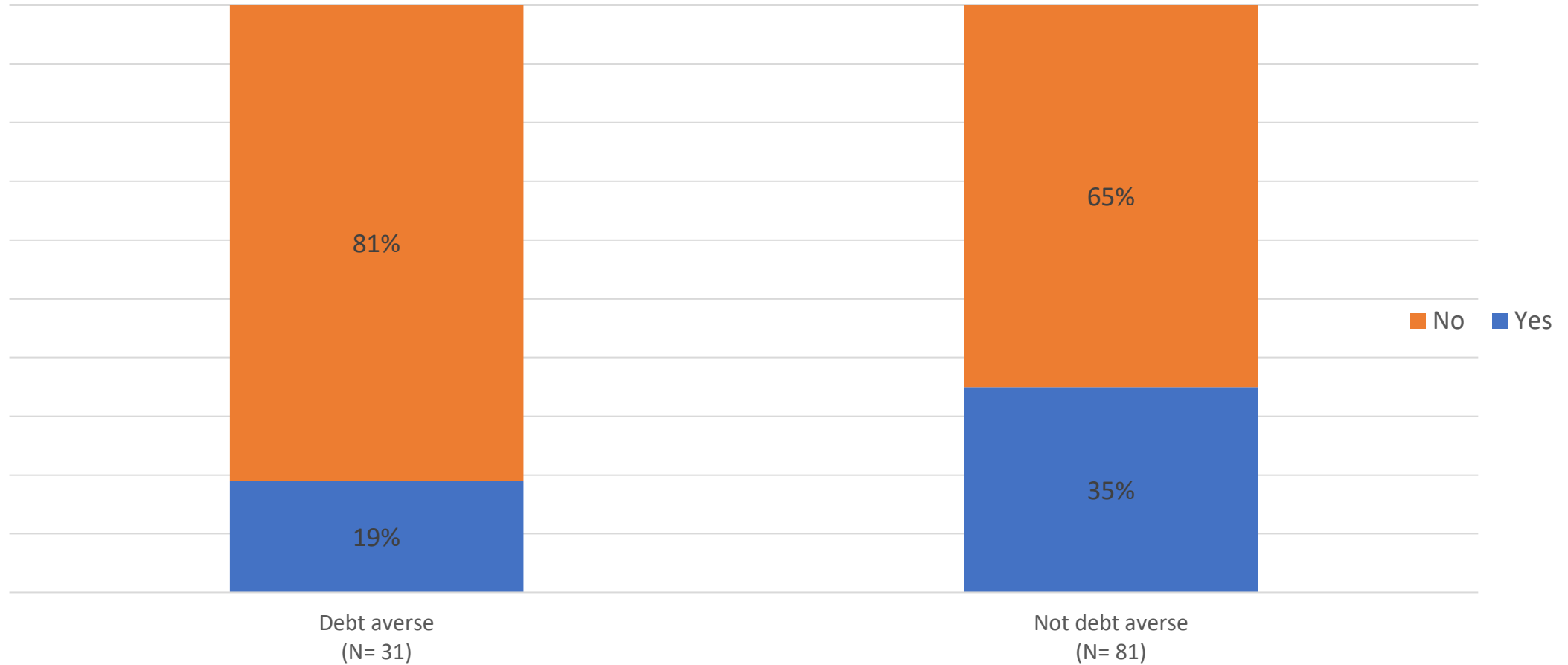
Banking: *business receive any funding from federal programs*



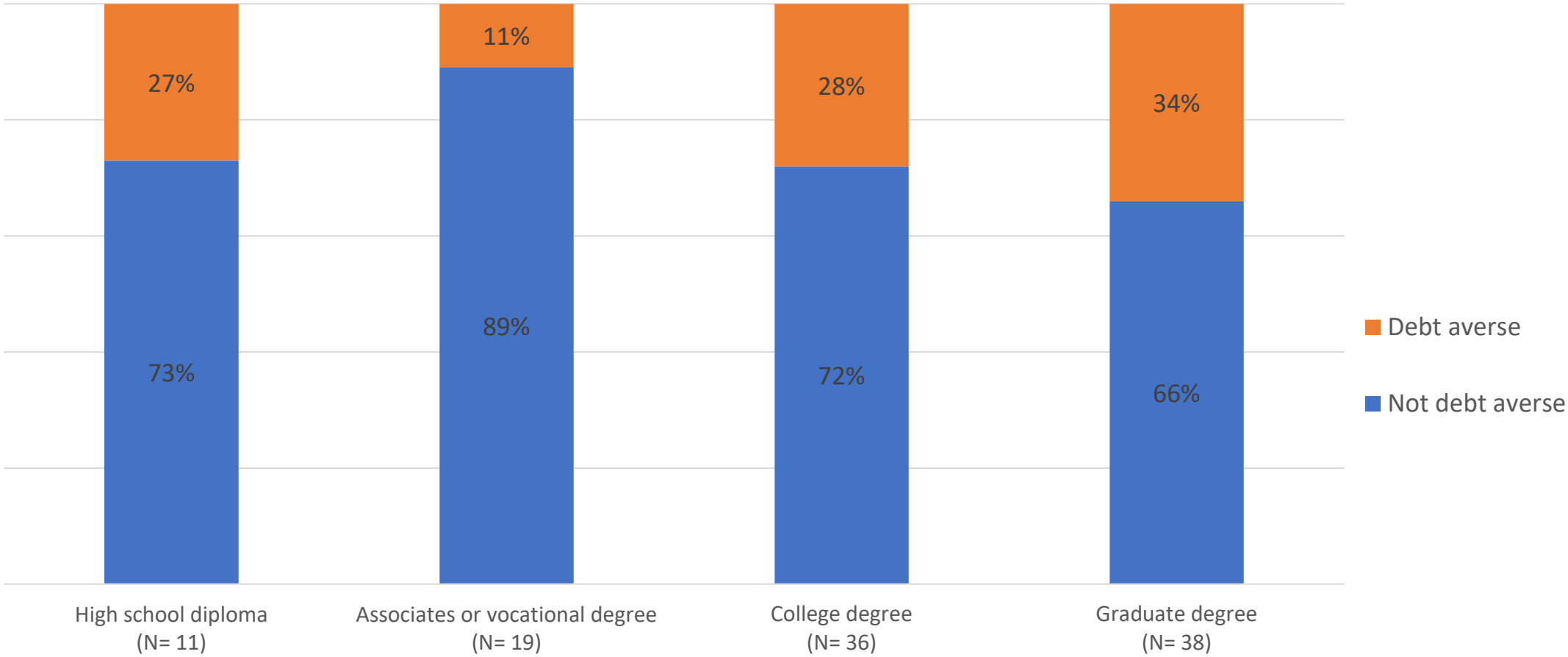
Debt Aversion: *how debt averse do you think you are*



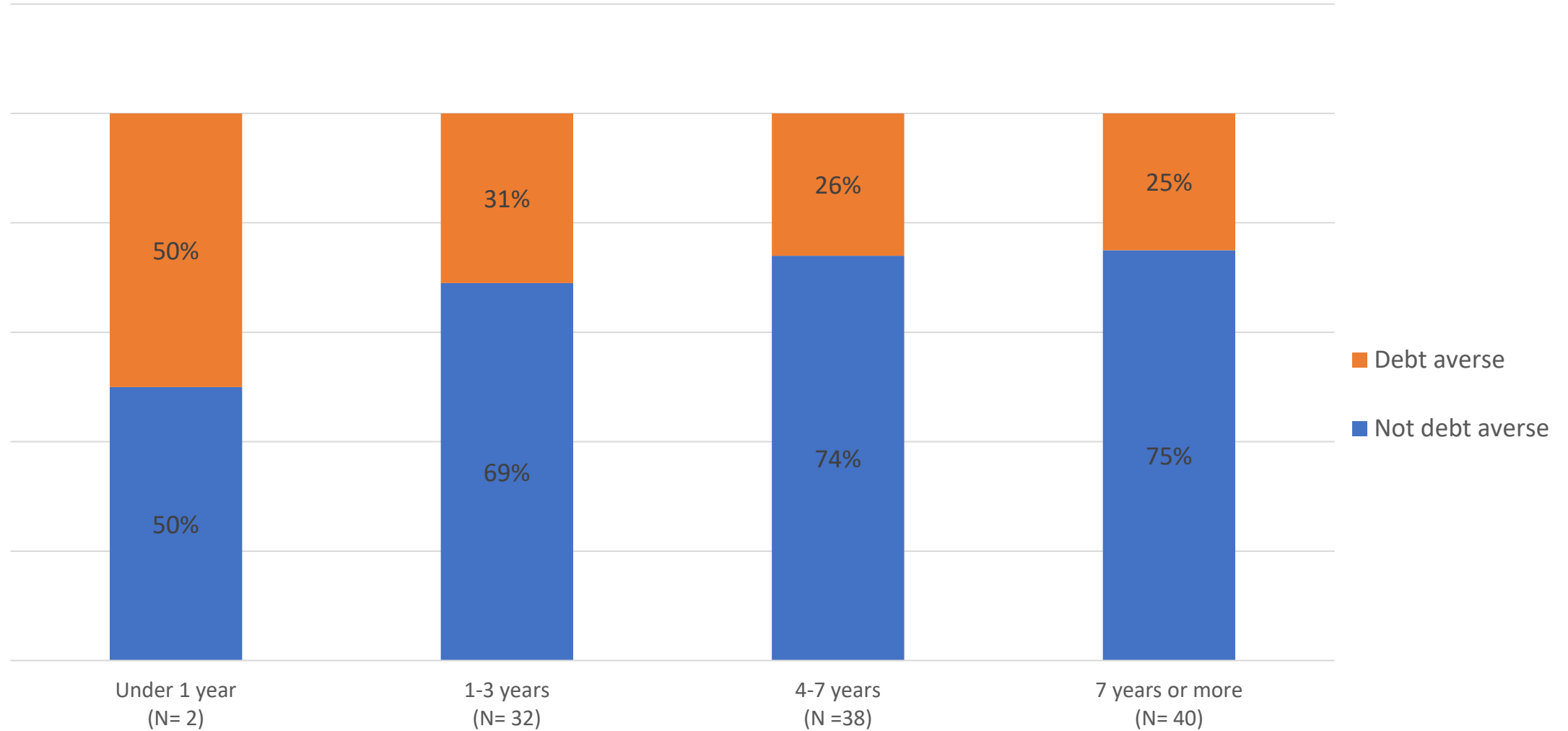
Debt Aversion: *applied for business loan from traditional bank during life of business*



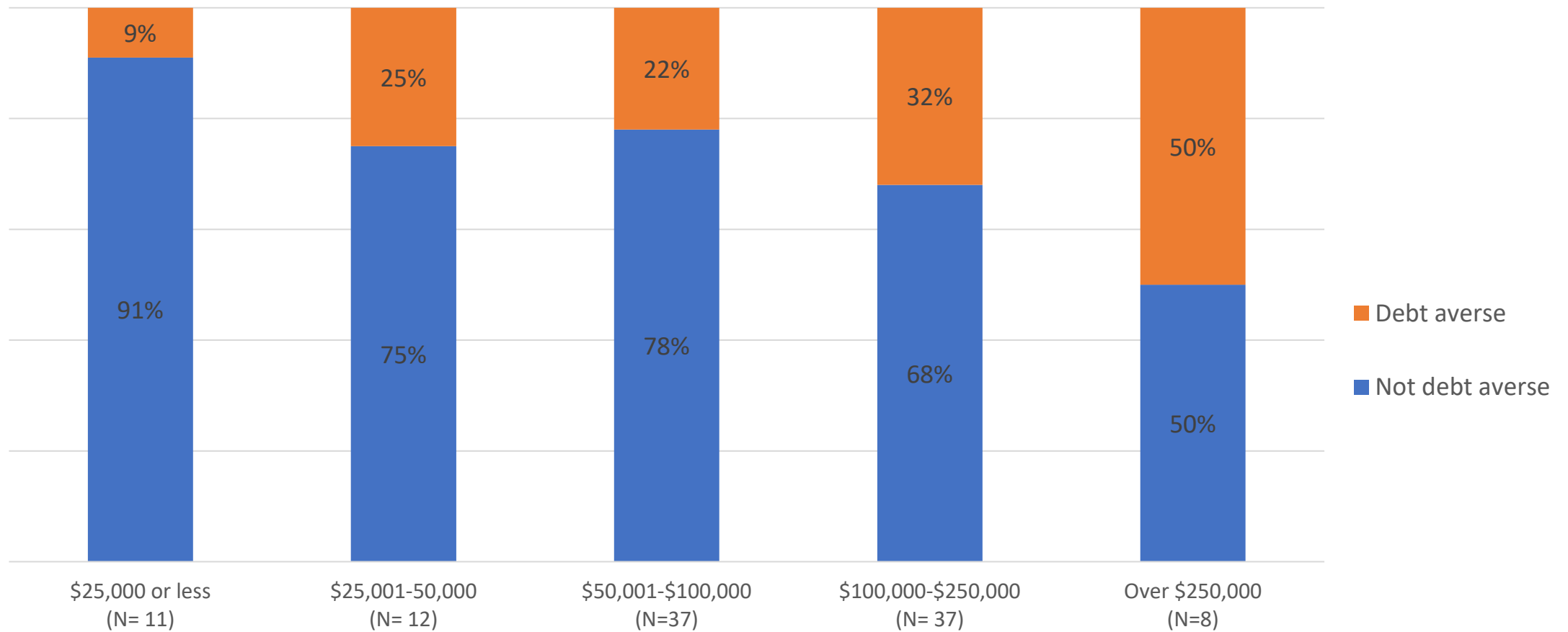
Debt Aversion: *highest educational degree obtained*



Debt Aversion: *years in business*



Debt Aversion: *household income*



Debt Aversion: *likelihood to find brick & mortar location in next 6-12 months*

