SMALL BUSINESS CREDIT SURVEY

2021 REPORT ON FIRMS OWNED BY PEOPLE OF COLOR

FEDERAL RESERVE BANKS *of*
Atlanta • Boston • Chicago • Cleveland • Dallas • Kansas City • Minneapolis
New York • Philadelphia • Richmond • St. Louis • San Francisco

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The views expressed in the following pages are those of the report team and do not necessarily represent the views of the Federal Reserve System.

1 *For a full list of community partners, please visit www.fedsmallbusiness.org.*
2 *For complete information about the survey methodology, please see Methodology.*
3 *Joseph Firschein, Board of Governors of the Federal Reserve System; Karen Leone de Nie, Federal Reserve Bank of Atlanta; Prabal Chakrabarti, Federal Reserve Bank of Boston; Daniel Sullivan, Federal Reserve Bank of Chicago; Emily Garr Pacetti, Federal Reserve Bank of Cleveland; Roy Lopez, Federal Reserve Bank of Dallas; Tammy Edwards, Federal Reserve Bank of Kansas City; Alene Tchourumoff, Federal Reserve Bank of Minneapolis; Tony Davis, Federal Reserve Bank of New York; Theresa Singleton, Federal Reserve Bank of Philadelphia; Christy Cleare, Federal Reserve Bank of Richmond; Daniel Davis, Federal Reserve Bank of St. Louis; and Laura Choi, Federal Reserve Bank of San Francisco.*
4 *The Report and Survey Team appreciates the thoughtful comments, managerial support, and guidance from the following colleagues: Lisa Nelson from the Federal Reserve Bank of Cleveland; Brent Meyer, Veronika Penciakova, Nick Parker, and Kevin Foster from the Federal Reserve Bank of Atlanta; and Barbara Lipman and Marysol Weindorf from the Board of Governors of the Federal Reserve System. Valuable assistance with this publication was provided by Heather Ann from the Federal Reserve Bank of Cleveland.*

EXECUTIVE SUMMARY

The COVID-19 pandemic has deeply impacted communities of color and small businesses of color, in many cases to a greater extent than their white counterparts. Prior to the pandemic, small businesses owned by people of color, in aggregate, faced greater challenges than white-owned firms.[1] The 2020 Small Business Credit Survey (SBCS) provides evidence that the pandemic exacerbated those challenges, an important finding as those businesses continue to weather the impact of the COVID-19 pandemic.

At the time of the 2020 SBCS—six months after the onset of the pandemic—the US economy had undergone a significant contraction of economic activity.[2] The SBCS finds that firms owned by people of color, both small employer firms and nonemployer firms,[3] were among the firms most likely to experience financial and operational challenges stemming from the pandemic. The challenges these firms are facing are concerning, given the important role the firms play in wealth building and employment in communities of color and, more broadly, in the overall economy.[4]

While firms owned by people of color account for just 18% of small employers,[5] they are a rapidly growing segment of small businesses, increasing at a rate of 11% compared to white-owned firms (1%) between 2014 and 2016.[6] Yet firms of color continue to face structural barriers in acquiring the capital, knowledge, and market access necessary for growth. The SBCS finds that firms owned by people of color tend to have weaker banking relationships, experience worse outcomes on credit applications, and are more reliant on personal funds.

The challenges that firms of color disproportionately face make it important to disaggregate small business outcomes by race and ethnicity of firm ownership. Understanding the differences between the experiences of Black-, Asian-, and Hispanic-owned firms can help policymakers better address the unique needs of small businesses of color and implement programs to support the survival of these small firms and their recovery from the effects of the pandemic.

SURVEY FINDINGS

The SBCS provides data on small business performance, financing needs and decisions, and borrowing outcomes. The 2020 SBCS, which was fielded in September and October 2020, yielded 9,693 responses from small employer firms in all 50 states and the District of Columbia. This report shows results by four race/ethnicity categories: white, Black or African American, Hispanic or Latino, and Asian or Pacific Islander.[7] For select key statistics, this report also provides results for 4,531 nonemployer firms, which are firms with no employees on payroll other than the owner(s) of the business. Given that the vast majority of firms of color are nonemployers, information on this segment of firms is crucial to understanding the ecosystem for firms owned by people of color. This *2021 Small Business Credit Survey Report on Firms Owned by People of Color*, therefore, offers unique insight into important segments of the small business population.

Key performance indicators declined substantially for the majority of employer firms between 2019 and 2020. However, firms owned by people of color reported more significant negative effects on business revenue, employment, and operations as a result of the COVID-19 pandemic.

- Declines in revenue and employment between 2019 and 2020 were most severe for firms owned by people of color. Ninety percent of Asian-owned firms reported a decrease in revenue, the most of any group of business owners. Moreover, the majority of Asian-owned firms (54%) also reported a decrease in employment during the same period.
- Firms owned by people of color were more likely to report that they reduced business operations in response to the COVID-19 pandemic. Sixty-seven percent of Asian- and Black-owned firms reported reducing their operations, followed by 63% of Hispanic-owned firms and 54% of white-owned firms.
- Asian-owned firms were most likely to report an expected sales decline in 2020

1 *Mills, Claire Kramer and Jessica Battisto. 2020. "Double Jeopardy: COVID-19's Concentrated Health and Wealth Effects in Black Communities." Federal Reserve Bank of New York. August. www.fedsmallbusiness.org/medialibrary/FedSmallBusiness/files/2020/DoubleJeopardy_COVID19andBlackOwnedBusinesses.*
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2 *Bauer, Lauren, Kristen Broady, Wendy Edelberg, and Jimmy O'Donnell. 2020. "Ten Facts about COVID-19 and the U.S. Economy." The Brookings Institution. September. www.brookings.edu/research/ten-facts-about-covid-19-and-the-u-s-economy/.*

3 *Small employer firms have between 1 and 499 full- or part-time paid employees, in addition to the owner(s), on payroll. Nonemployer firms have no paid employees other than the owner(s).*

4 *Klein, Joyce. 2017. "Bridging the Divide: How Business Ownership Can Help Close the Racial Wealth Gap." The Aspen Institute. January. www.aspeninstitute.org/wp-content/uploads/2017/01/Bridging-the-Divide.pdf.*
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5 *Based on authors' calculations from the US Census Bureau's 2018 Annual Business Survey.*

6 *Toussaint-Coumeau, Maude and Victoria Williams. 2020. "Secular Trends in Minority-Owned Businesses and Small Business Finance." "ProfitWise News and Views (No. 2)." May. Federal Reserve Bank of Chicago. www.chicagofed.org/publications/profitwise-news-and-views/2020/secular-trends-minority-owned-businesses-small-business-finance.*

7 *The SBCS uses Census-defined categories of race and ethnicity. Throughout this report, we use simplified, mutually exclusive race/ethnicity labels. For example, a label of "white" refers to "non-Hispanic white" and a label of "Hispanic" refers to all firms owned by individuals of Hispanic ethnicity, regardless of their race.*

EXECUTIVE SUMMARY
(Continued)

due to the pandemic (93%). Sales declines were also reported by 86% and 85% of Black- and Hispanic-owned firms, respectively, while 79% of white-owned firms reported a decrease in sales.

- At the time of the survey, firms of color were more likely than white-owned firms to report poor or fair financial conditions. While 79% of Asian-owned firms and 77% of Black-owned firms reported that their financial condition was poor or fair, 54% of white-owned firms reported similar conditions.

Firms owned by people of color faced significant financial stress in 2020, more so than their white-owned counterparts.

- Ninety-two percent of Black-owned firms reported experiencing financial challenges in 2020 (up from 85% in 2019), followed by Asian-owned firms (89%, up from 70%) and Hispanic-owned firms (85%, up from 78%). White-owned firms were the least likely to report financial challenges (79%, up from 65% in 2019).
- Nearly three quarters of Asian- and Black-owned firms reported difficulties paying their operating expenses compared to 63% of white-owned firms. Moreover, 53% of Black-owned firms reported difficulty accessing credit, the most of any group.
- Black business owners were the most likely to tap into their personal funds in response to their firms' financial challenges (74%) compared to Hispanic-owned firms (65%), Asian-owned firms (65%), and white-owned firms (61%). Almost half of Black-owned firms (46%) reported concerns about personal credit scores or loss of personal assets as a result of late payments, the highest share among the owner groups. In contrast, white-owned firms were the most likely to report that there was no impact on the owner's personal finances.

The Paycheck Protection Program (PPP) was the most commonly sought form of emergency assistance funding among employer firms. Firms owned by people of color, and particularly Black-owned firms, were less likely to receive all of the PPP funding that they requested.

- Only 61% of Black-owned firms applied for a PPP loan compared to 85% of Asian-owned firms, the largest share of any group.
- While 79% of white-owned firms received all of the PPP funding they sought, that share dropped to 43% for Black-owned firms. Black-owned applicant firms were five times as likely as white-owned firms to receive none of the PPP funding for which they applied (20% compared to 4%).
- When Black-owned firms applied for PPP funds at large banks, 41% received all of the funding sought (compared to 71% for white-owned firms). When applying to small banks, 48% of Black-owned firms received the full share (versus 80% for white-owned firms), and 24% were fully approved at online lenders (versus 49% for white-owned firms).
- Among those that did not seek PPP, most did not expect to qualify for the loan or loan forgiveness. Further, firms owned by people of color were more likely than white-owned firms to report that they missed the deadline or were unaware of the program, while white-owned firms disproportionately reported that they did not need funding.

At the time of the survey, firms owned by people of color expected revenue, employment, and operational challenges to persist into 2021 or beyond.

- Sixty-three percent of Asian-owned firms expected their revenues to decrease in the 12 months following the survey, while smaller shares of Hispanic-, white- and Black-owned firms (39%, 38% and 37%, respectively) anticipated declines.
- Most firms expected that sales would not return to "normal" (that is, 2019 levels) until the second half of 2021 or later. At the time of the survey, 81% of Asian-owned firms expected sales would not reach normal until at least the second half of 2021, compared to 72% of Black-owned firms, 70% of white-owned firms, and 64% of Hispanic-owned firms.
- Forty-eight percent of Black-owned firms expect credit availability will be a challenge as a result of the pandemic, compared to 40% of Hispanic-owned firms, 38% of Asian-owned firms, and 30% of white-owned firms.

Even among firms with good credit scores, firms owned by people of color were less likely to have their financing needs met than white-owned firms.

- Across owner groups, Black-owned firms that applied for traditional forms of financing were least likely to receive all of the financing they sought (13%). Hispanic- and Asian-owned firms (20% and 31%, respectively) were also less likely than white-owned firms (40%) to receive all of the financing for which they applied.
- Even among firms with good credit scores, Black-owned firms were half as likely as white-owned firms to receive all of the financing they sought (24% versus 48%).

Firms owned by people of color reported differences in their use of financial services and satisfaction with their providers.

- Firms owned by people of color were twice as likely as white-owned firms to report that they did not use a financial services provider. Twelve percent of Black- and Hispanic-owned firms did not use financial service providers, followed by 11% of Asian-owned firms and 6% of white-owned firms.
- Firms owned by people of color were less satisfied than white-owned firms with the support they received from their primary financial services provider during the pandemic. Larger shares of white-owned firms were satisfied with small banks, large banks, and credit unions compared to firms of color.

Nonemployer firms of color experienced sharp sales declines and poor financial conditions. They also sought different forms of pandemic-related emergency assistance.

- Similar to Asian-owned employer firms, Asian-owned nonemployer firms were more likely than other nonemployer firms to report declines in revenues in the 12 months prior to the survey, with 90% experiencing a decrease in sales. About half of Asian-owned nonemployer firms (52%) reported their financial condition as poor, compared to 38% of Hispanic-owned nonemployer firms, 36% of Black-owned nonemployer firms, and 28% of white-owned nonemployer firms.

- While PPP was the top source of emergency assistance for employer firms, nonemployer firms—particularly nonemployer firms of color—were just as likely or even more likely to seek Economic Injury Disaster loans as PPP loans.
- Regardless of the race or ethnicity of the owner, nonemployer firms were less likely than employer firms to apply for PPP loans and were less likely to be approved.
- Applications for enhanced unemployment insurance benefits were particularly common among Asian owners of nonemployer firms (45% applied). Among owners of Black, Hispanic, and white nonemployer firms, about 3 in 10 applied.

ABOUT THE SURVEY

The SBCS is an annual survey of firms with fewer than 500 employees. These types of firms represent 99.7% of all employer establishments in the United States.[8] Respondents are asked to report information about their business performance, financing needs and choices, and borrowing experiences. Responses to the SBCS provide insights on the dynamics behind lending trends and shed light on various segments of the small business population.

METHODOLOGY

The SBCS uses a convenience sample of establishments. Businesses are contacted by email through a diverse set of organizations that serve the small business community.[9] Prior SBCS participants and small businesses on publicly available email lists[10] are also contacted directly by the Federal Reserve Banks. The survey instrument is an online questionnaire that typically takes 6 to 12 minutes to complete, depending upon the intensity of a firm's search for financing. The questionnaire uses question branching and flows based on responses to survey questions. For example, financing applicants receive a different line of questioning than nonapplicants. Therefore, the number of observations for each question varies by how many firms receive and complete a particular question.

A sample for the SBCS is not selected randomly; thus, the SBCS may be subject to biases not present with surveys that do sample firms randomly. For example, there are likely small employer firms not on our contact lists, a situation which could lead to noncoverage bias. To control for potential biases, the sample data are weighted so the weighted distribution of firms in the SBCS matches the distribution of the small firm (1 to 499 employees) population in the United States by number of employees, age, industry, geographic location (census division and urban or rural location), gender of owner(s), and race or ethnicity of owner(s). The weighting methodology was developed in collaboration with the National Opinion Research Center (NORC) at the University of Chicago. The data used to construct the weights originate from the US Census Bureau. For more information on the report and weighting methodology, please refer to the *Small Business Credit Survey 2021 Report on Employer Firms* Methodology section.[11]

Pages 34–40 in this report include data pertaining to nonemployer firms. Similar to employer firms, responses from nonemployer firms in the Small Business Credit Survey are weighted to represent the distribution of nonemployer firms across the United States. These weights are based on the firm's age, industry, rural or urban location of a firm, the race and ethnicity of a firm's ownership, and the gender of a firm's ownership. The data for these variables are obtained from the US Census Bureau. The weighting process used for nonemployers differs somewhat from the process for employer firms. For instance, due to data limitations, weights are constructed based on national data, compared to state-level data for employer firms. Additionally, the age and gender of ownership variables are based on fewer strata for employer firms. For further information on the SBCS weighting methodology for nonemployer firms, please refer to the *Small Business Credit Survey 2019 Report on Nonemployer Firms* Methodology section.

Whenever this report refers to "Asian," "Black," "Hispanic," or "white," the report and the data refer to the race and ethnicity of the majority of the firms' ownership: non-Hispanic Asian-owned, non-Hispanic Black-owned, Hispanic- or Latino-owned, or non-Hispanic white-owned. When this report refers to "firms of color" or "firms owned by people of color," the data refer to firms for which more than 50% of a firm's ownership is Asian, Black, or Hispanic. When specified, firms owned by people of color will also include majority Native American ownership. Consistent with the approach taken by the US Census Bureau, in cases where a firm is owned equally by owners who are white and owners who are from a racial or ethnic minority group, or in cases in which at least half of the firm is owned by another entity (for example, shareholders or a trust), that firm is classified as "white." When observation counts are too low to provide reliable estimates for specific race or ethnicity categories, results are displayed only for categories with sufficiently high counts or for firms of color collectively.

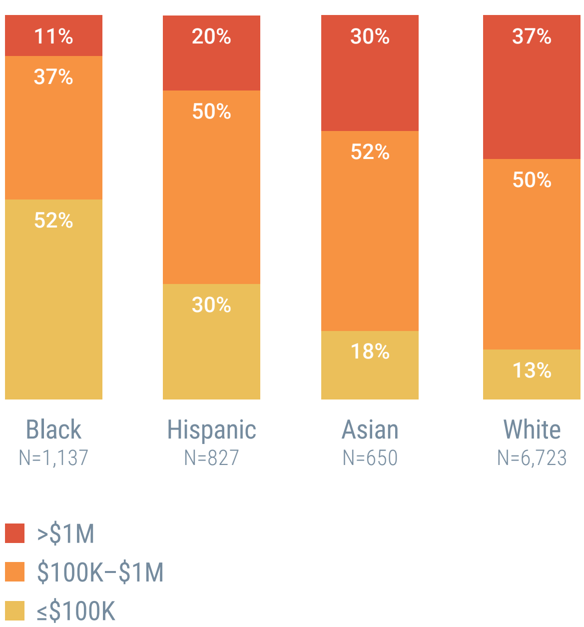
8 *US Census Bureau, 2018 County Business Patterns.*
9 *For more information on partnerships, please visit www.fedsmallbusiness.org/partnership*
10 *System for Award Management (SAM) Entity Management Extracts Public Data Package; Small Business Administration (SBA) Dynamic Small Business Search (DSBS); state-maintained lists of certified disadvantaged business enterprises (DBEs); state and local government Procurement Vendor Lists, including minority- and women-owned business enterprises (MWBEs); state and local government-maintained lists of small or disadvantaged small businesses; and a list of veteran-owned small businesses maintained by the Department of Veterans Affairs.*
11 *Some results displayed in the charts that depict changes over time may differ from the 2016 Small Business Credit Survey: Report on Minority-Owned Firms due to changes in the weighting methodology and the addition of observations for which race, ethnicity, and gender of the firms' owner(s) was imputed.*

KEY DEMOGRAPHICS FOR EMPLOYER FIRMS

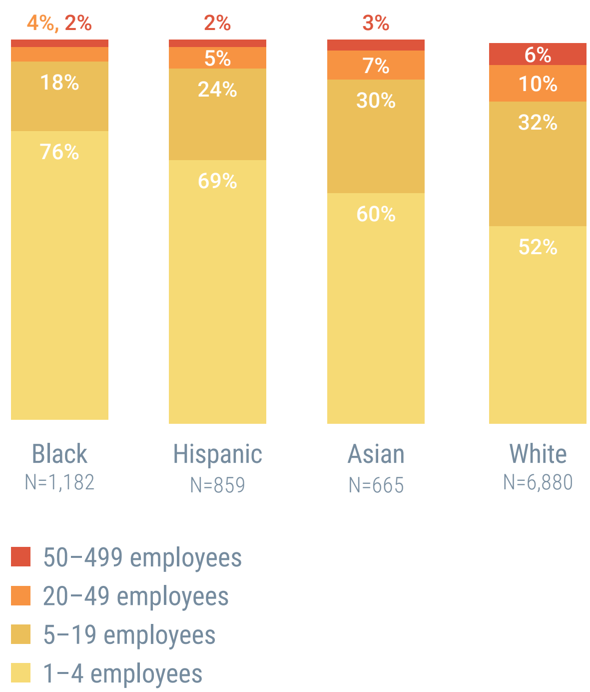
Small business revenue size is closely associated with firms' financial well-being, resiliency, and profitability. For example, firms with higher annual revenues are more likely to successfully obtain the financing needed to operate and grow. These outcomes are particularly relevant to firms of color because research shows that they generate considerably smaller revenues, on average, than their white counterparts. The SBCS finds that about half of Black-owned small employer firms (52%) operated on $100,000 or less in revenue in 2020, followed by Hispanic- and Asian-owned firms (30% and 18%, respectively). As firms work through the effects of the pandemic, revenue size provides important context for firms' ability to access the capital they need to recover.

Similarly, the smallest firms with respect to employment also tend to be the most vulnerable to economic downturns such as the one sparked by the COVID-19 pandemic.[1] The majority of small employer firms across each racial and ethnic group employed fewer than five workers. Seventy-six percent of Black-owned firms employed fewer than five employees, the largest share of any group, followed by Hispanic-, Asian-, and white-owned firms (69%, 60%, and 52%, respectively).

REVENUE SIZE OF FIRM[2] (% of employer firms)



NUMBER OF EMPLOYEES[3] (% of employer firms)



1 *Liu, Sifan and Joseph Parilla. 2020. "What the Great Recession Can Tell Us about the COVID-19 Small Business Crisis." The Brookings Institution. The Avenue. March. www.brookings.edu/blog/the-avenue/2020/03/25/what-the-great-recession-can-tell-us-about-the-covid-19-small-business-crisis/.*

2 *Categories have been condensed and simplified for readability. Actual response options are: ≤$25K, $25,001–$50K, $50,001–$100K, $100,001–$500K, $500,001–$1M, $1,000,001–$5M, $5,000,001–$10M, >$10M.*

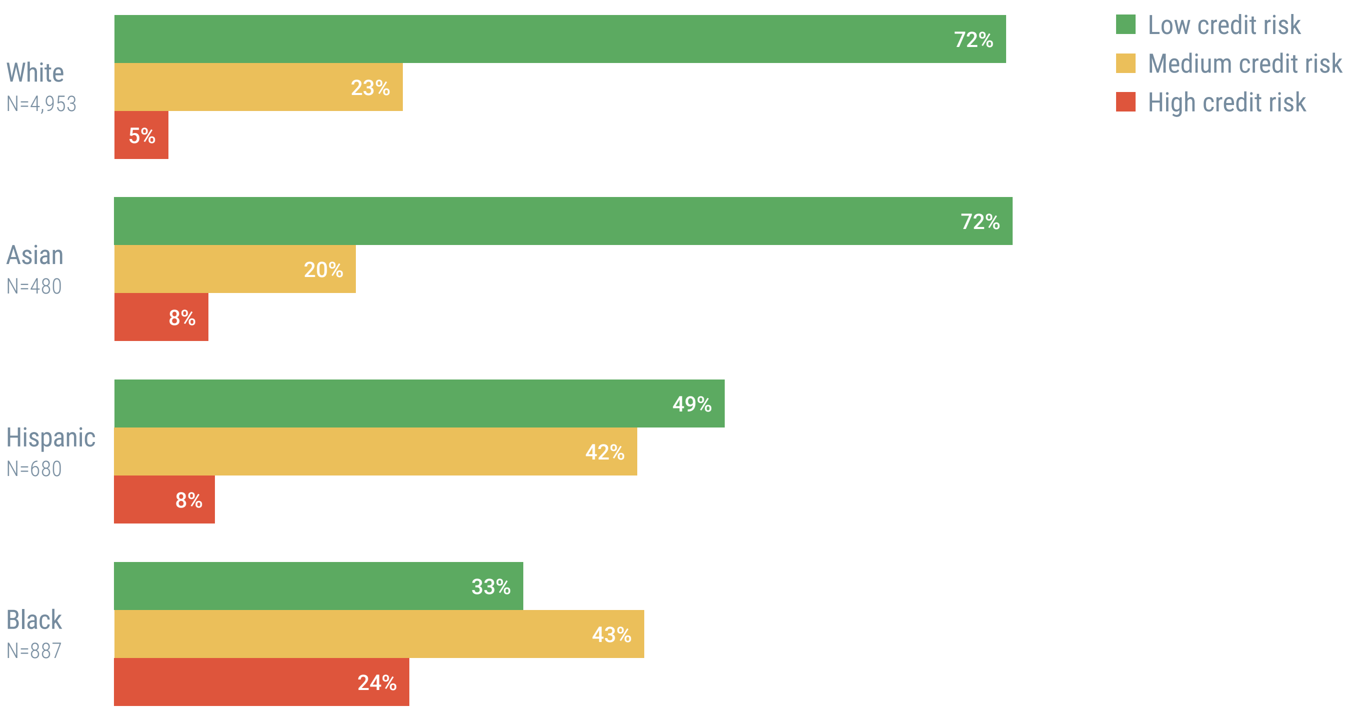
3 *The percentages shown in this chart may differ from those reported by the US Census because our weighting methodology does not incorporate cross-tabulations of demographic variables. Therefore, the figures in this chart are a closer representation of our survey respondents rather than the most precise estimate of the national small business population.*

KEY DEMOGRAPHICS FOR EMPLOYER FIRMS
(Continued)

Credit risk, which is based on the self-reported credit score of a business or its owner, is an important factor that lenders consider in their credit decisions. However, disparities in credit risk between firms owned by people of color and white-owned firms heighten barriers to raising capital and expanding the business. Studies show gaps in access to credit and capital for firms owned by people of color can, in part, be attributed to lower levels of wealth among Black and Hispanic business owners, lower revenues, and insufficient credit histories.[1] These factors—especially wealth and credit history—likely contribute to differences in credit scores between business owners of color and white business owners.

While this report includes findings based on the credit risk of firms, we acknowledge that questions remain around the use of credit scores in decisions to approve financing given the structural limitations that disadvantage people and firms of color.

CREDIT RISK OF FIRM[2,3] (% of employer firms)



1 Fairlie, Robert and Alicia Robb. 2010. "Disparities in Capital Access between Minority and Non-Minority-Owned Businesses: The Troubling Reality of Capital Limitations Faced by MBEs." US Department of Commerce, Minority Business Development Agency. January. archive.mbda.gov/page/executive-summary-disparities-capital-access-between-minority-and-non-minority-businesses.html.
Brevoort, Kenneth, Philipp Grim, and Michelle Kambara. 2015. "Data Point: Credit Invisibles." The CFPB Office of Research. May. files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf.

2 Percentages may not sum to 100 due to rounding.

3 Credit risk is determined by the self-reported business credit score or personal credit score, depending on which is used to obtain financing for their business. If the firm uses both, the higher risk rating is used. "Low credit risk" is a 80–100 business credit score or 720+ personal credit score. "Medium credit risk" is a 50–79 business credit score or a 620–719 personal credit score. "High credit risk" is a 1–49 business credit score or a <620 personal credit score.

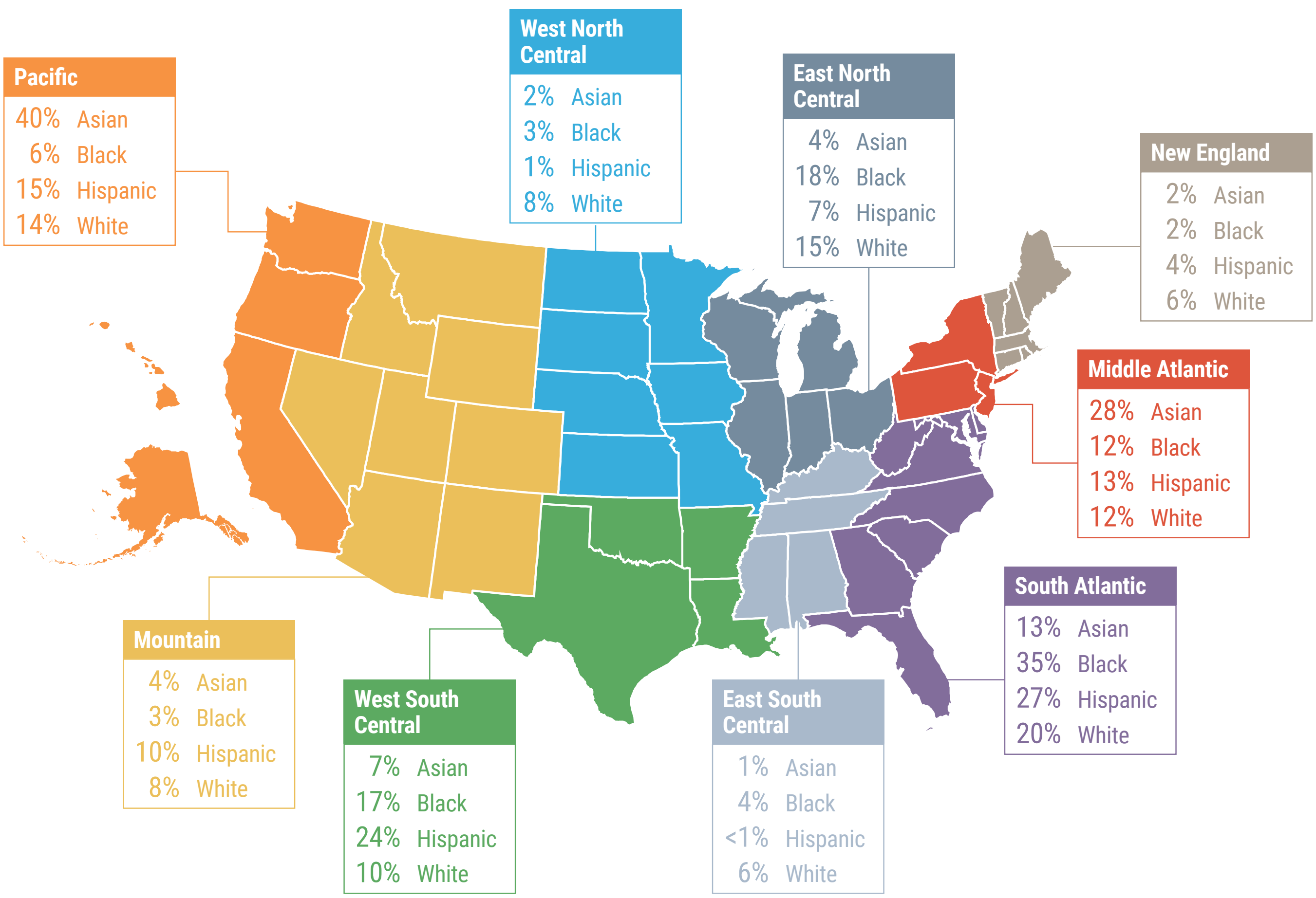
KEY DEMOGRAPHICS FOR EMPLOYER FIRMS
(Continued)

Patterns of geographic concentration exist among small business ownership by race and ethnicity. This is of particular importance given the geography of the progressive spread of COVID-19 throughout 2020 and variations in state governments' responses to limit the spread of the virus. These differences meant that businesses were affected differently based on their geography.[1] For example, 40% of Asian-owned small employer firms are located in the Pacific census division, and another 28% are in the Middle Atlantic. These regions include states such as California, New York, and Pennsylvania, where the virus spread rapidly at the outset of the pandemic. Early and aggressive efforts by those states to curb the spread of the virus—for example, government-mandated closures—may have affected the revenue performance of Asian-owned firms in aggregate given their geographic concentration.

Black- and Hispanic-owned small employer firms are more concentrated in the South Atlantic region, which includes states with a mix of pandemic responses during late 2020, when the 2020 SBCS was fielded. For example, while Florida lifted COVID-19 restrictions relatively quickly, the South Atlantic also includes states such as Maryland and North Carolina, which maintained more strict guidelines. Given the differences at the state and local levels with respect to the spread of the virus and government responses, census divisions are a useful but imperfect indicator of the pandemic's impact on aggregate business performance.

CENSUS DIVISION[2,3] (% of employer firms)

Asian, N=665; Black, N=1,182; Hispanic, N=859; White, N=6,880



1 *Ding, Lei and Alvaro Sánchez. 2020. "What Small Businesses Will Be Impacted by COVID-19?" Federal Reserve Bank of Philadelphia. April. www.philadelphiafed.org/community-development/housing-and-neighborhoods/what-small-businesses-will-be-impacted-by-covid-19.*
Mills, Claire Kramer and Jessica Battisto. 2020. "Double Jeopardy: COVID-19's Concentrated Health and Wealth Effects in Black Communities." Federal Reserve Bank of New York. August. www.fedsmallbusiness.org/medialibrary/FedSmallBusiness/files/2020/DoubleJeopardy_COVID19andBlackOwnedBusinesses.

2 *The percentages represent the share of firms in their respective race/ethnicity categories that are located in each census division. Percentages sum within race and ethnicity categories rather than within census divisions. Percentages may not sum to 100 due to rounding.*

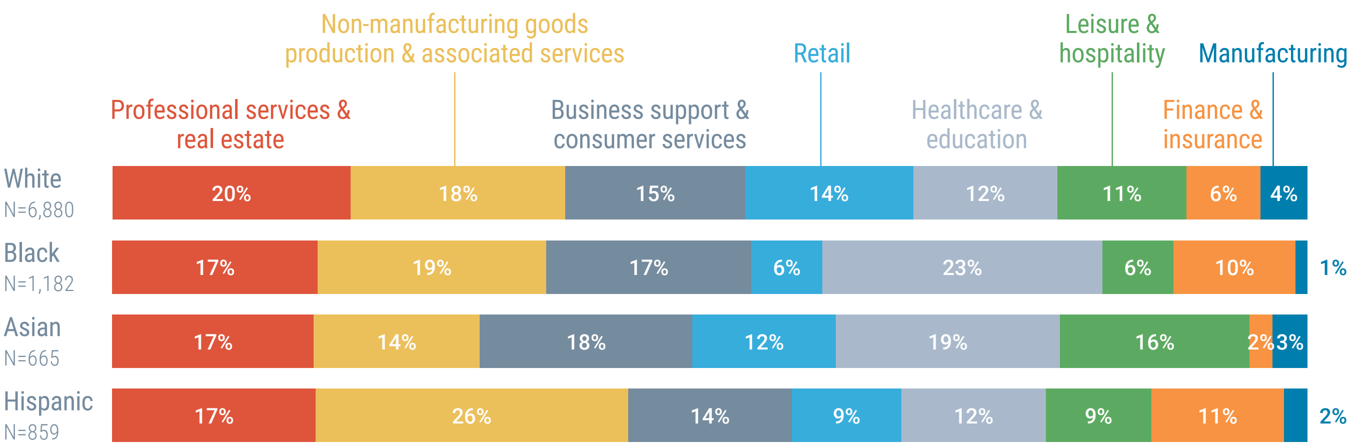
3 *The percentages shown in this graphic may differ from those reported by the US Census because our weighting methodology does not incorporate cross-tabulations of demographic variables. Therefore, the figures in this graphic are a closer representation of our survey respondents rather than the most precise estimate of the national small business population.*

KEY DEMOGRAPHICS FOR EMPLOYER FIRMS
(Continued)

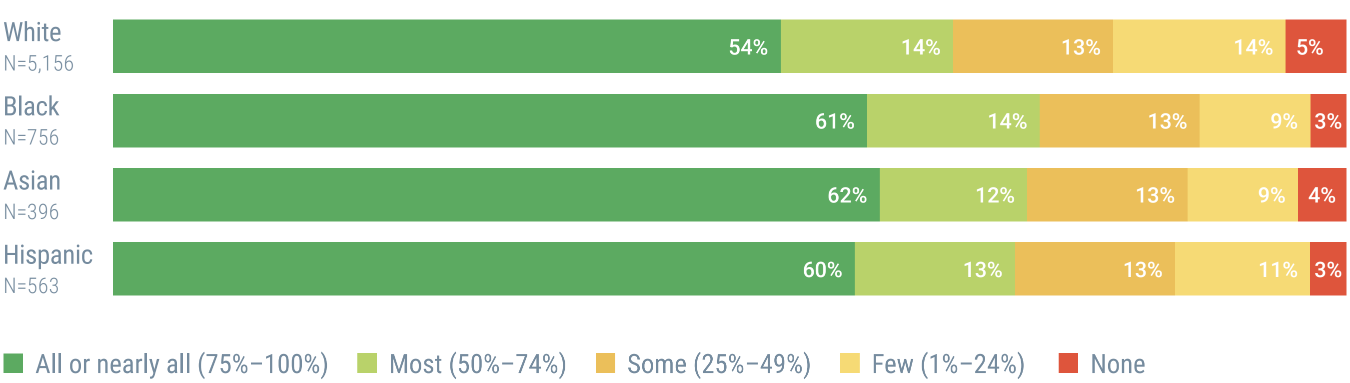
The COVID-19 pandemic has had a larger impact on certain industries than others, particularly those with higher shares of firms owned by people of color. For instance, the Leisure and Hospitality industry (including bars, hotels, and performance venues) includes a disproportionately high share of Asian-owned firms and was among the industries with the sharpest declines in revenues and employment. Similarly, about one in four Black-owned small employer firms operate in the Healthcare and Education industry (including home health aides, dentists, and academic tutors). These industries contain many businesses that require frequent face-to-face interactions between customers and employees, leaving the firms vulnerable to effects from the pandemic such as government-mandated shutdowns and declines in demand due to shifting consumer behavior.

On the other hand, Hispanic-owned small employer firms had the highest concentration of businesses in the Nonmanufacturing Goods Production and Associated Services industry, which includes small farms, construction trades, wholesalers, and transportation services. This industry category has seen a variety of impacts from the pandemic, ranging from increased demand for construction, home remodeling, and freight delivery services to more minimal effects on agriculture and farm production.

INDUSTRY[1,2,3] (% of employer firms)



SHARE OF POSITIONS AT BUSINESS REQUIRING FACE-TO-FACE CUSTOMER CONTACT[4] (% of employer firms)



1 *Percentages may not sum to 100 due to rounding.*
2 *The percentages shown in this graphic may differ from those reported by the US Census because our weighting methodology does not incorporate cross-tabulations of demographic variables. Therefore, the figures in this graphic are a closer representation of our survey respondents rather than the most precise estimate of the national small business population.*
3 *Firm industry is classified based on the description of what the business does, as provided by the survey participant. See Appendix for definitions of each industry.*
4 *Data on positions requiring customer contact were drawn from questions in the optional end-of-survey module (completed by approximately 80% of respondents). This subset of respondents is re-weighted to be reflective of the overall small firm population.*

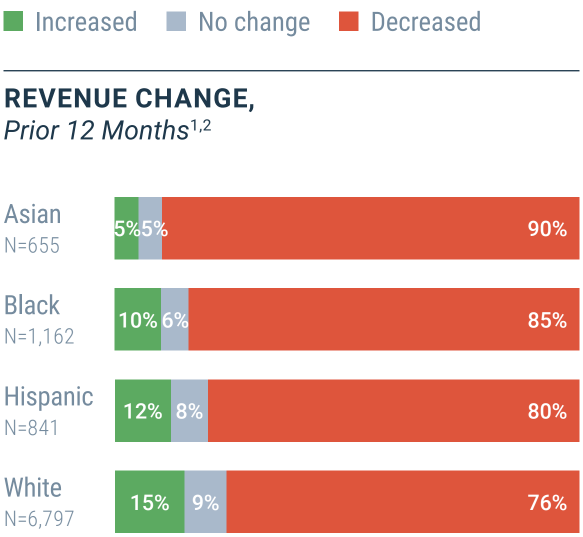
PERFORMANCE & CHALLENGES

Revenue and Employment Change, Prior 12 Months

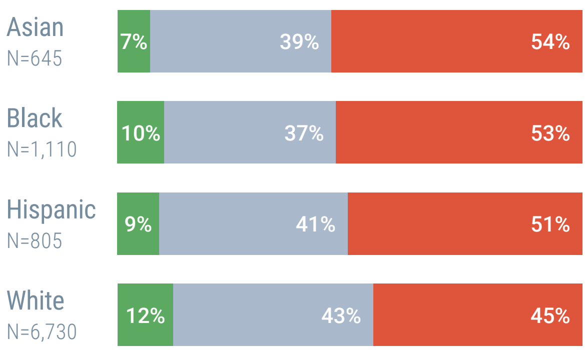
Asian-owned firms were more likely than other firms to experience declines in revenues and employment in the 12 months prior to the survey.

EMPLOYER FIRM PERFORMANCE (% of employer firms)

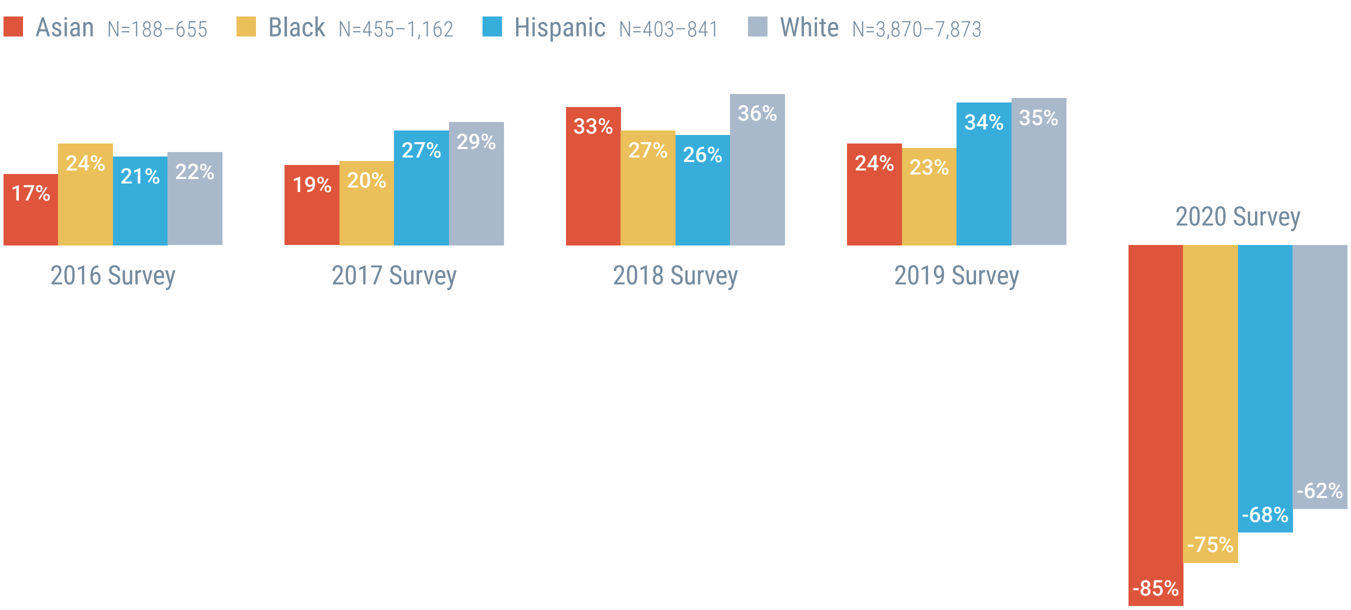
REVENUE CHANGE, *Prior 12 Months*[1,2]



EMPLOYMENT CHANGE, *Prior 12 Months*[1,2]



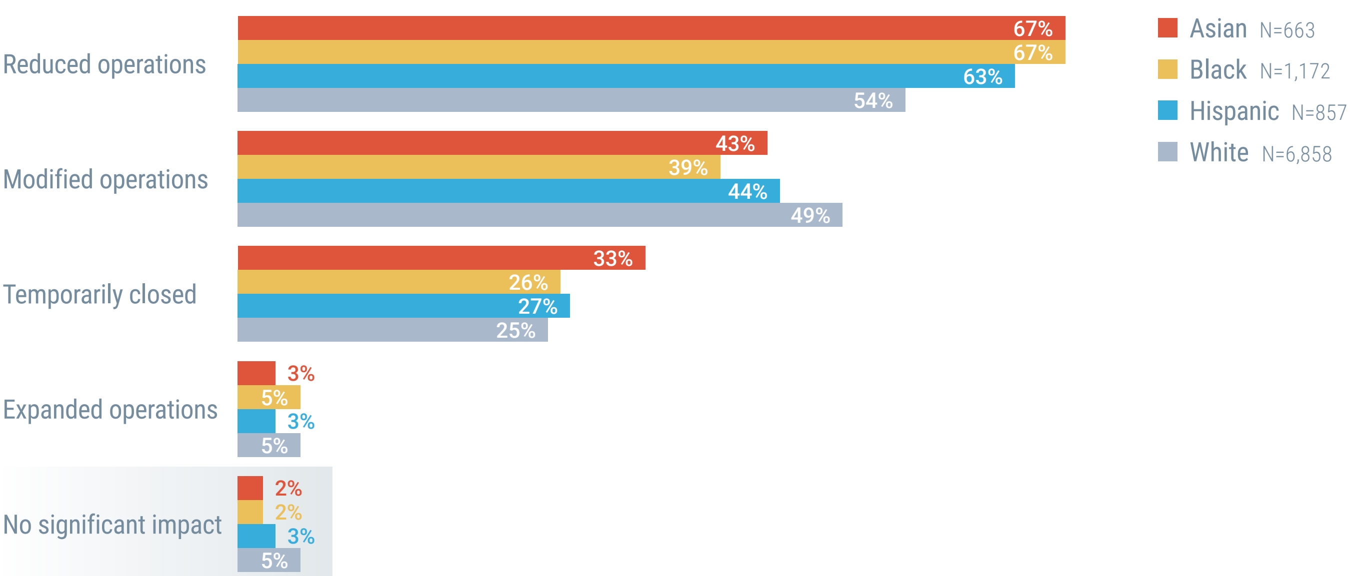
EMPLOYER FIRM REVENUE GROWTH INDEX, *Prior 12 Months*[3,4] (% of employer firms)



1 Percentages may not sum to 100 due to rounding.
2 Approximately the second half of 2019 through the second half of 2020.
3 The index is the share reporting growth minus the share reporting a reduction.
4 Approximately the second half of the prior year through the second half of the surveyed year.

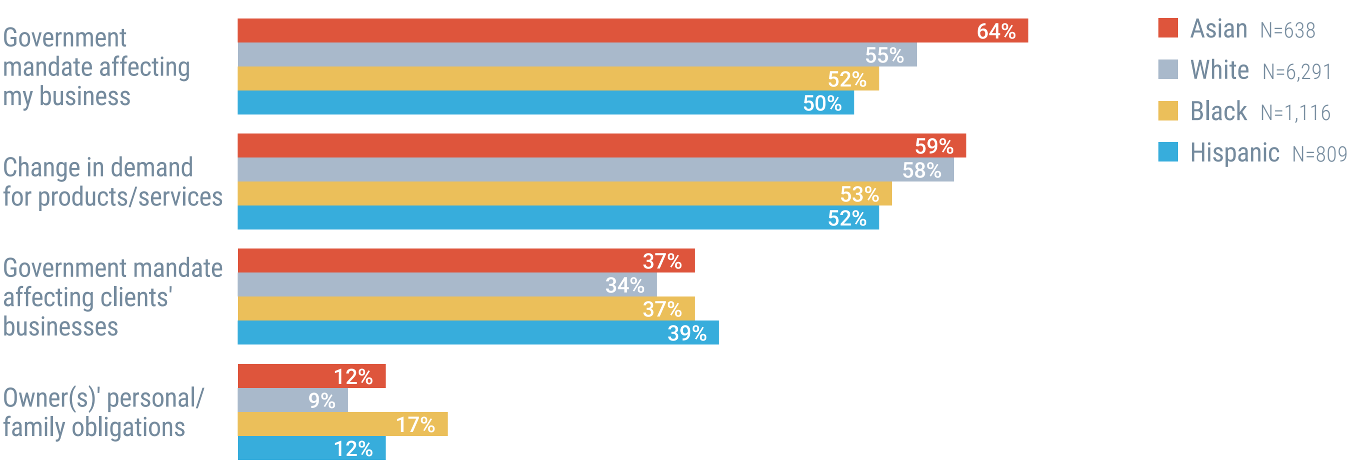
Overall, firms owned by people of color were more likely than white-owned firms to report that they reduced their operations in response to the pandemic. Asian-owned firms were more likely than others to have temporarily closed.

EFFECTS OF THE PANDEMIC ON BUSINESS OPERATIONS[1] (% of employer firms)



DRIVERS OF OPERATIONAL CHANGES DURING THE PANDEMIC[2,3]

(% of employer firms that temporarily closed or reduced/modified operations)



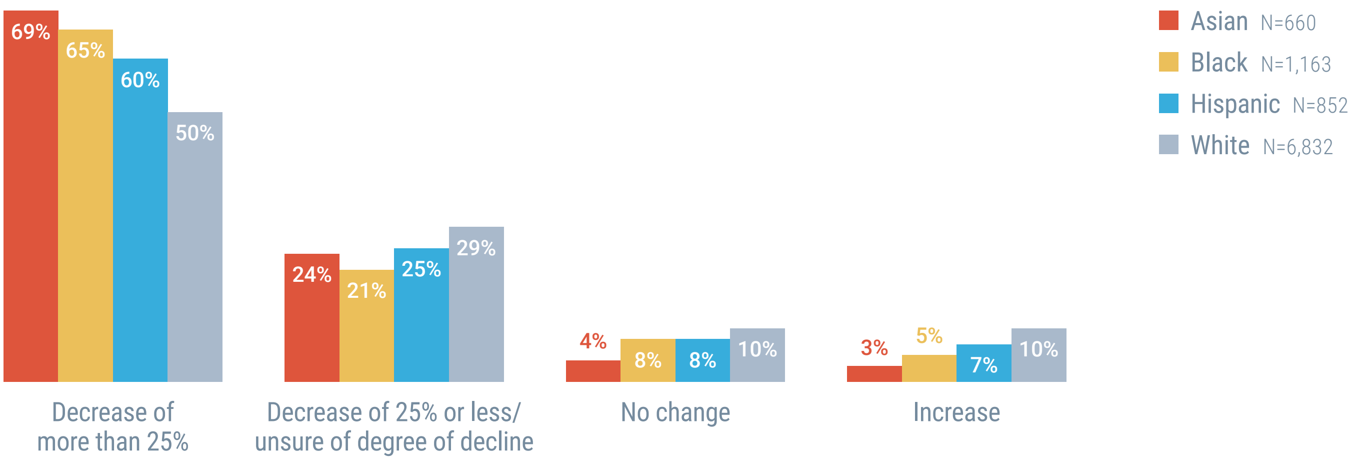
1 *Respondents could select multiple options. For example, a firm may have temporarily closed, and then reopened with reduced operations. "Temporarily closed" includes firms that remained closed at the time of survey and firms that had closed for a time but have since reopened.*
2 *Select options shown. See Appendix for more detail.*
3 *Respondents could select multiple options.*

PERFORMANCE & CHALLENGES

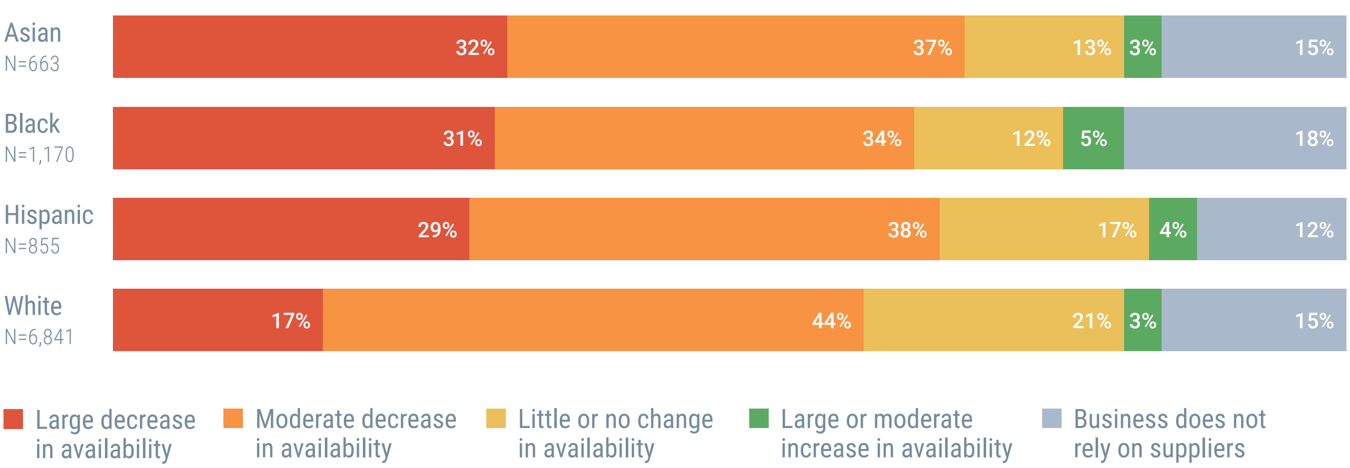
Effects of the Pandemic on Sales and Supply Chain

93% of Asian-owned firms and 86% of Black-owned firms reported sales declines as a result of the pandemic.

EXPECTED IMPACT OF THE PANDEMIC ON TOTAL SALES FOR 2020[1] (% of employer firms)



IMPACT OF THE PANDEMIC ON THE AVAILABILITY OF GOODS AND SERVICES IN FIRMS' SUPPLY CHAINS (% of employer firms)



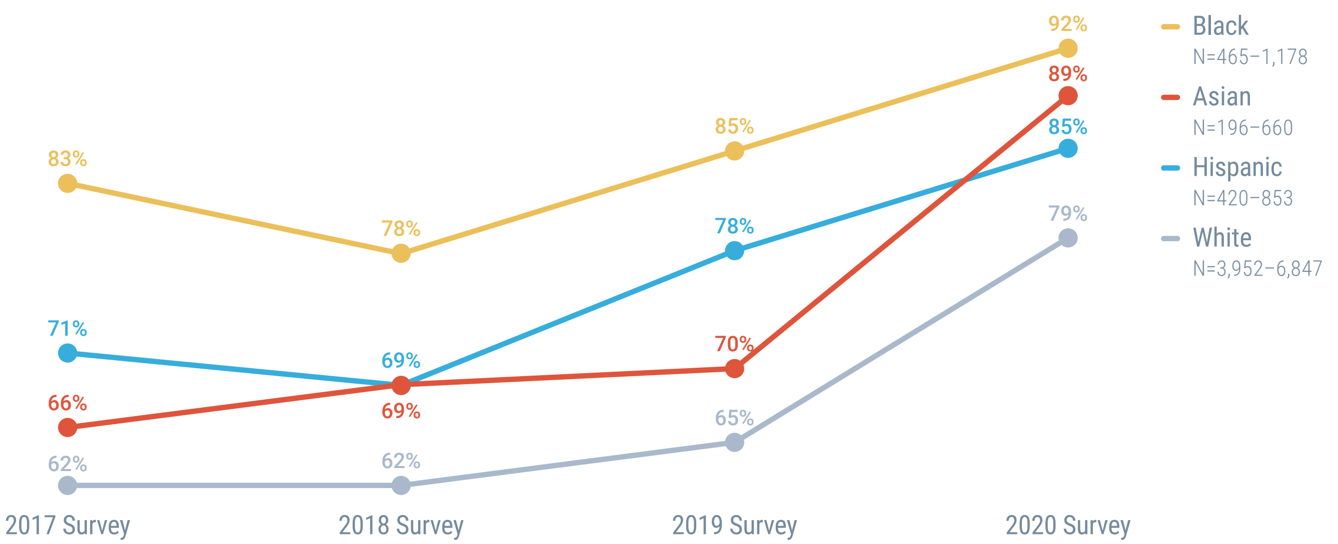
1 *Percentages may not sum to 100 due to rounding.*

PERFORMANCE & CHALLENGES

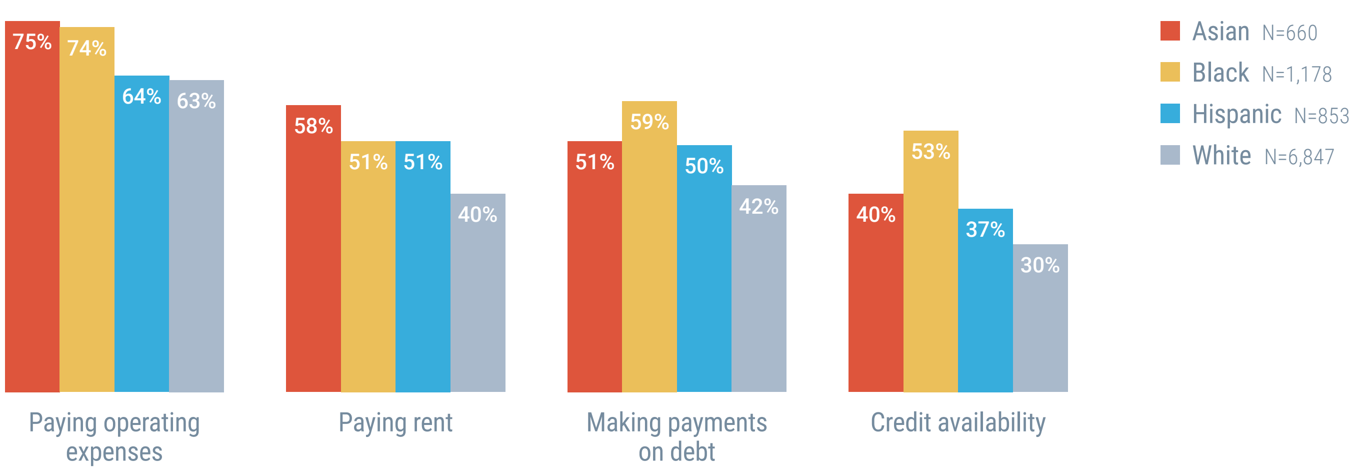
Financial Challenges, Prior 12 Months

Firms owned by people of color were more likely than white-owned firms to report their firms experienced financial challenges in the prior 12 months.

SHARE OF FIRMS WITH FINANCIAL CHALLENGES, *Prior 12 Months*[1] (% of employer firms)



TYPES OF FINANCIAL CHALLENGES, *Prior 12 Months*[2,3,4] (% of employer firms)



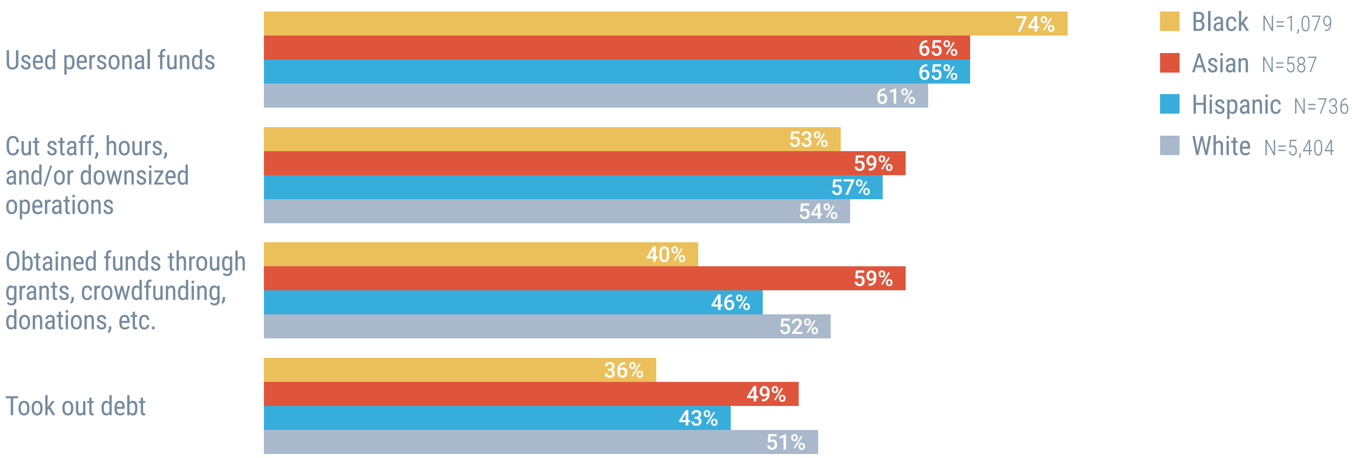
1 *Prior 12 months is approximately the second half of the prior year through the second half of the surveyed year.*
2 *Respondents could select multiple options.*
3 *Select options shown. See Appendix for more detail.*
4 *Approximately the second half of 2019 through the second half of 2020.*

PERFORMANCE & CHALLENGES

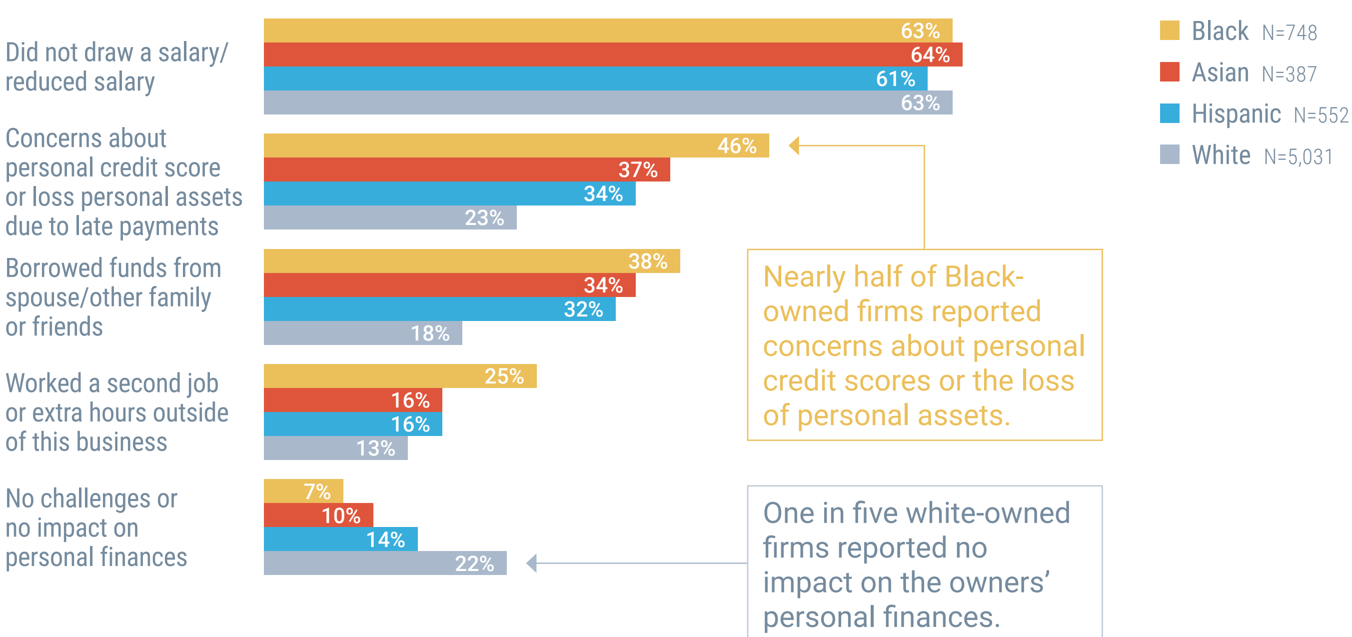
Coping with Financial Challenges and Use of Personal Funds

Black small-business owners were most likely to have used personal funds in response to their firms' financial challenges.

ACTIONS TAKEN TO ADDRESS FINANCIAL CHALLENGES, *Prior 12 Months*[1,2,3]
(% of employer firms reporting financial challenges)



EFFECTS OF THE FIRMS' FINANCIAL CHALLENGES ON THE PRIMARY OWNERS' PERSONAL FINANCES[1,2,3,4] (% of employer firms)

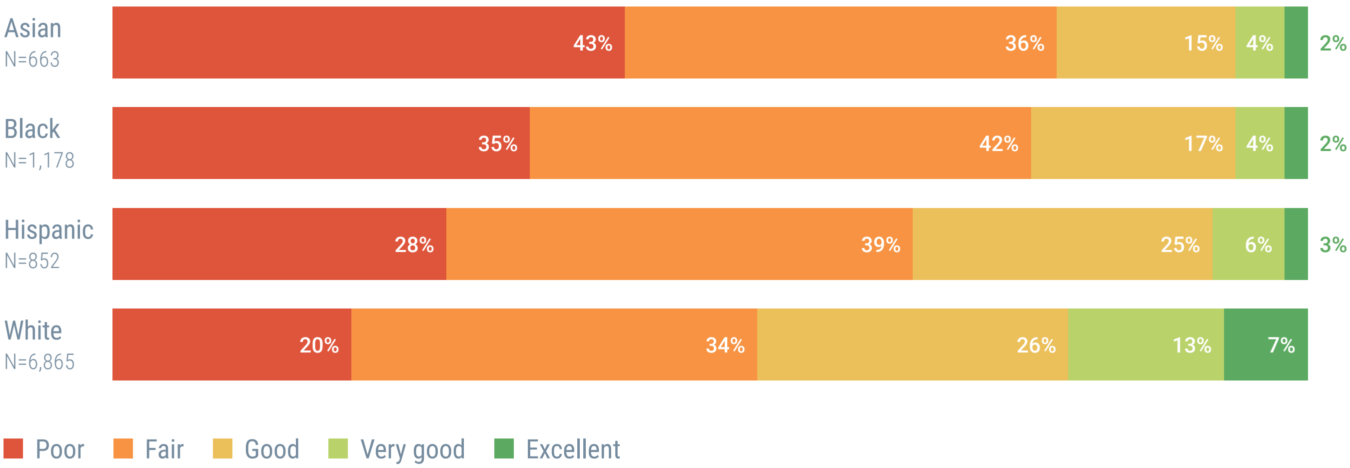


1 Respondents could select multiple options.
2 Approximately the second half of 2019 through the second half of 2020.
3 Select response options shown. See Appendix for more detail.
4 Data on personal finances were drawn from questions in the optional end-of-survey module (completed by approximately 80% of respondents). This subset of respondents is re-weighted to be reflective of the overall small-firm population.

PERFORMANCE & CHALLENGES
Financial Condition

Asian-owned firms were approximately twice as likely as white-owned firms to report their firms were in poor financial condition.

FINANCIAL CONDITION, *At Time of Survey*[1,2] (% of employer firms)



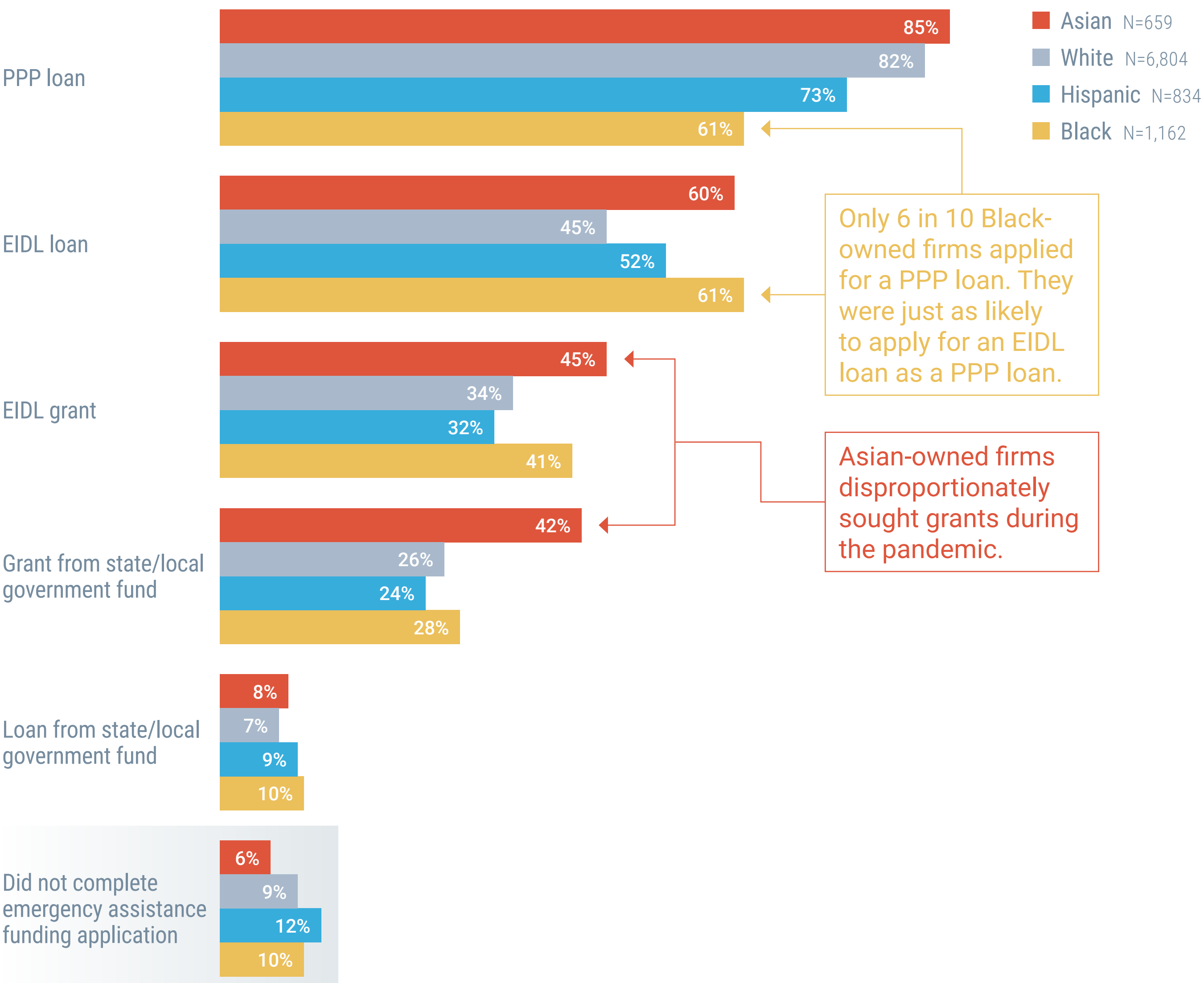
1 *Percentages may not sum to 100 due to rounding.*
2 *At time of survey, September through October 2020.*

EMERGENCY FUNDING

Pandemic-Related Emergency Funding Applications

Paycheck Protection Program (PPP) loans were the most common form of emergency assistance funding firms sought, overall. Black-owned firms were least likely to apply for PPP loans.

APPLICATIONS FOR EMERGENCY ASSISTANCE FUNDS[1,2] (% of employer firms)



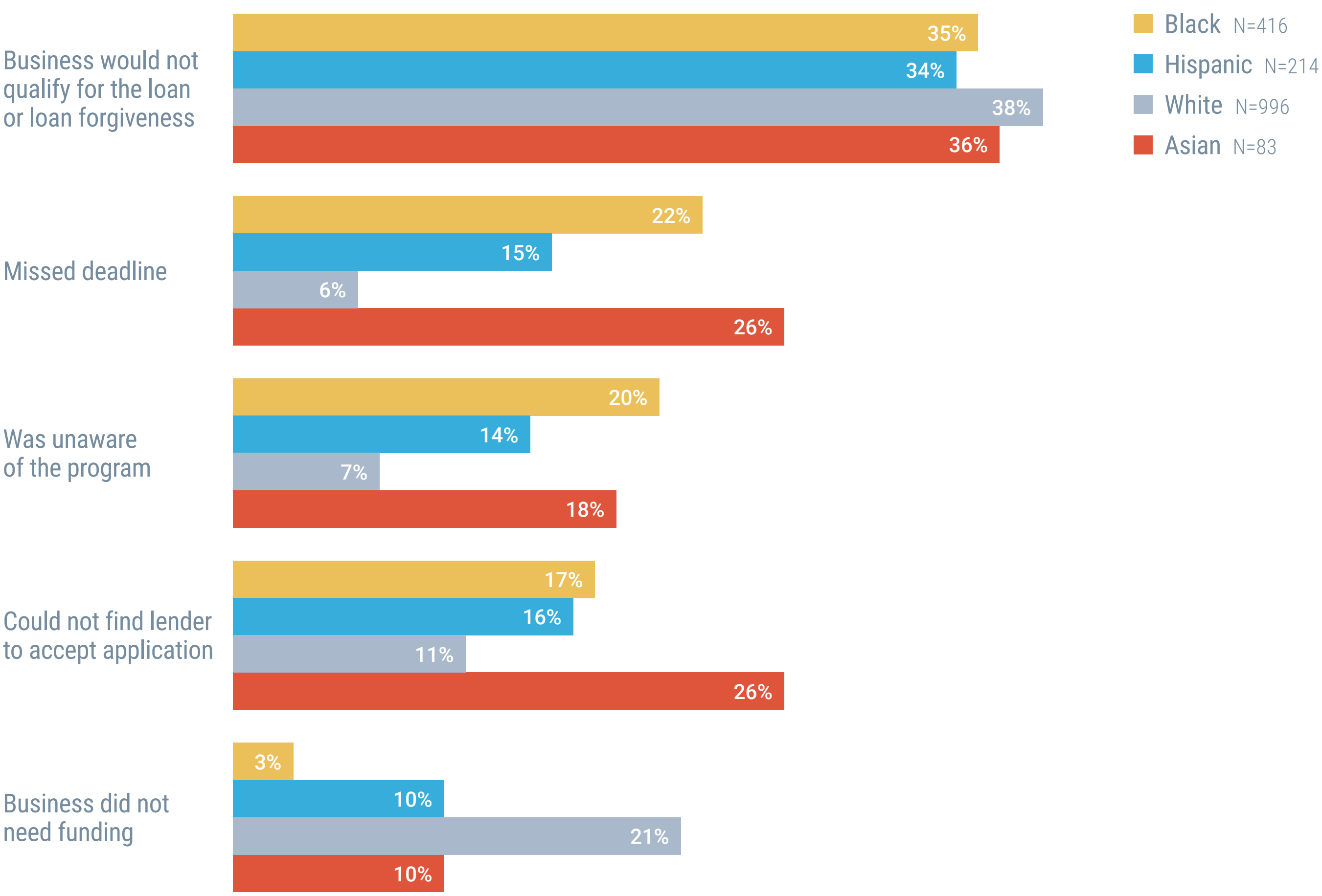
1 The Paycheck Protection Program (PPP) and Economic Injury Disaster Loan (EIDL) are administered through the US Small Business Administration. Main Street Lending Program option not shown. See Appendix for more detail.
2 Respondents could select multiple options.

EMERGENCY FUNDING
PPP Nonapplicants

Black- and Hispanic-owned firms were less likely to apply for a PPP loan. Firms owned by people of color were more likely than white-owned firms to report that they missed the deadline or were unaware of the program.

SHARE OF FIRMS THAT DID NOT APPLY FOR A PPP LOAN[1] (% of employer firms)

SELECT REASONS FIRMS DID NOT APPLY FOR A PPP LOAN[1,2,3] (% of PPP nonapplicants)



1 *The Paycheck Protection Program (PPP) is administered through the US Small Business Administration.*
2 *Respondents could select multiple options.*
3 *Select response options shown. See Appendix for more detail.*

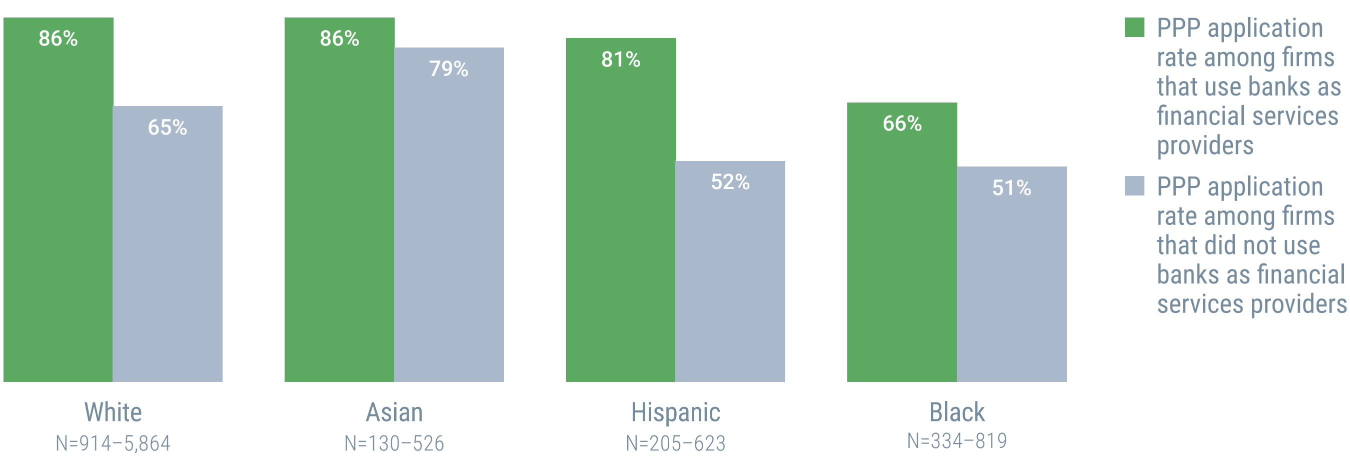
EMERGENCY FUNDING
PPP Applications and Bank Usage

Firms owned by people of color were less likely than white-owned firms to use a large or small bank as a financial services provider.

USE OF BANKS AS FINANCIAL SERVICES PROVIDERS[1,2,3] (% of employer firms)

Regardless of the sources at which they applied for PPP loans, firms that used banks as financial services providers were more likely to apply for PPP loans than firms that did not have a relationship with a bank.

SHARE OF FIRMS THAT APPLIED FOR PPP LOANS, *By Use of Banks as Financial Services Providers*[3,4]
(% of employer firms)

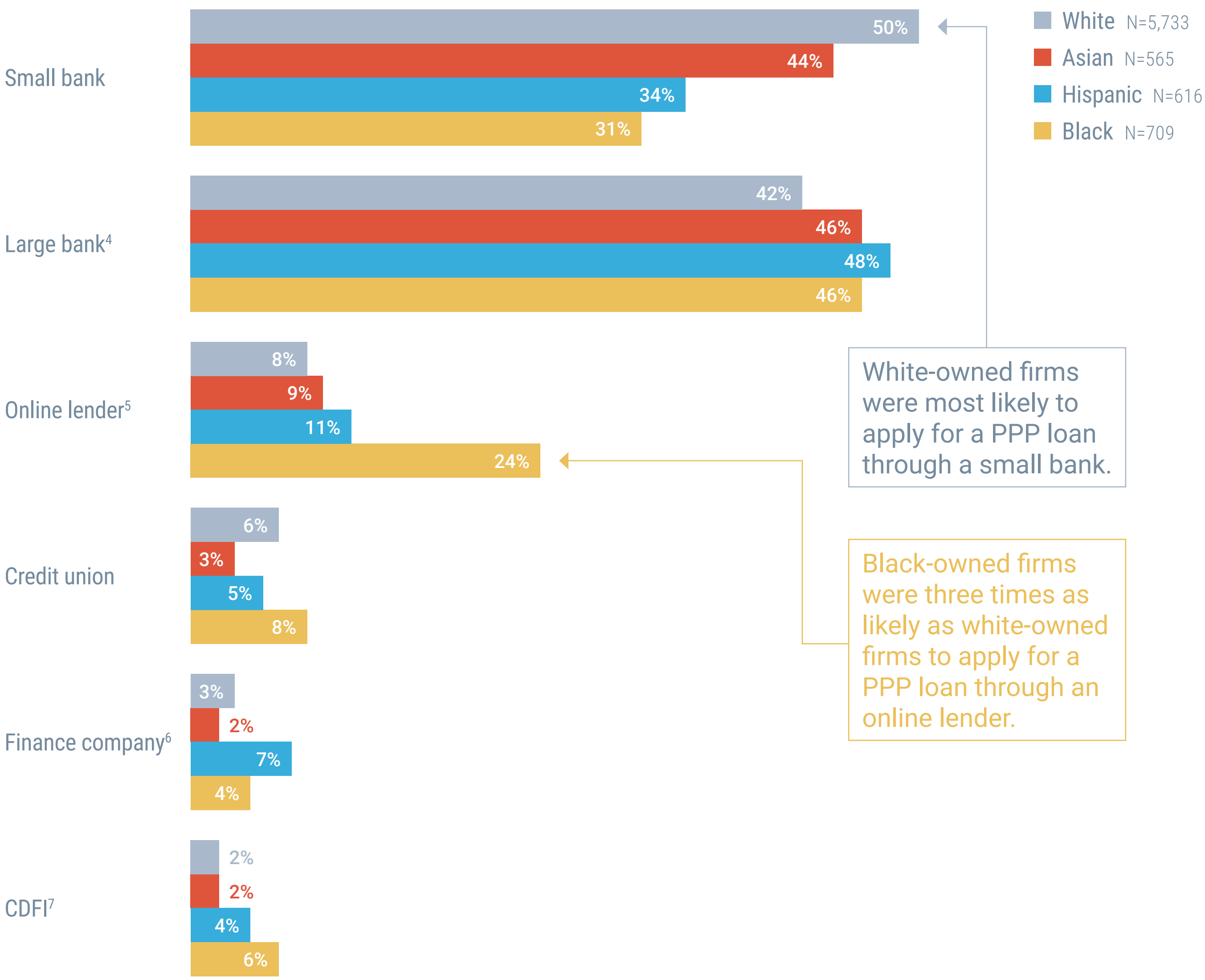


1 *Financial services providers are those at which the firm has an account or uses other financial services (including loans, payments processing, etc.)*
2 *For additional details on other financial services providers, see page 21.*
3 *Use of banks refers to the use of either a large bank or a small bank as a financial services provider. Respondents were provided a list of large banks (those with at least $10B in total deposits) operating in their state.*
4 *The Paycheck Protection Program (PPP) is administered through the US Small Business Administration.*

EMERGENCY FUNDING
PPP Applications by Source

While firms across race and ethnicity were similarly likely to apply for PPP loans at large banks, white- and Asian-owned firms more often applied at small banks than did Black- and Hispanic-owned firms.

PPP APPLICATIONS AT SOURCE[1,2,3] (% of employer firm PPP applicants)

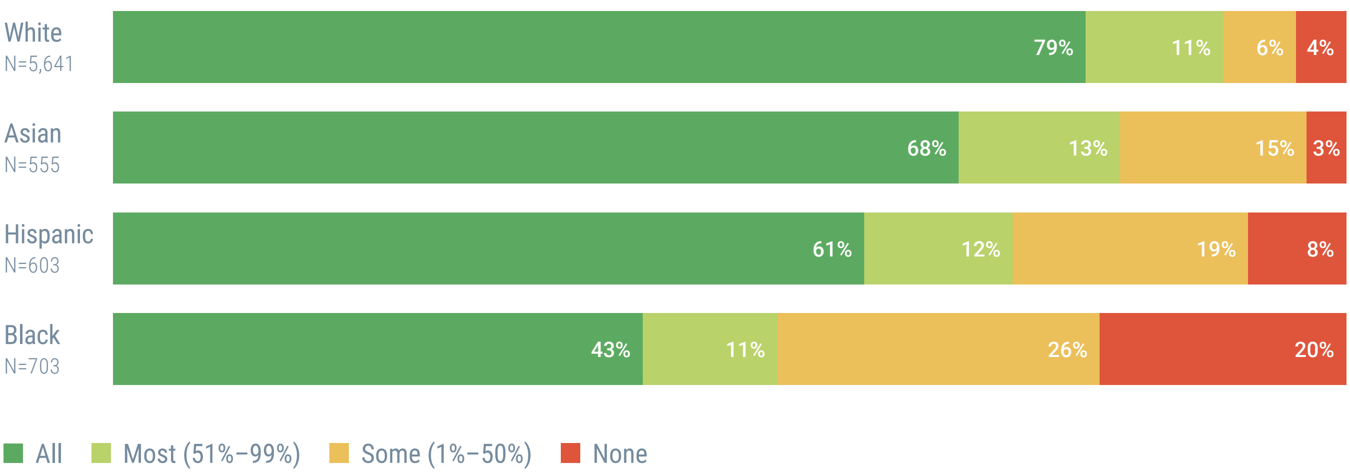


1 Response option "other" not shown. See Appendix for more detail.
2 The Paycheck Protection Program (PPP) is administered through the US Small Business Administration.
3 Respondents could select multiple options; respondents may have submitted more than one application.
4 Respondents were provided a list of large banks (those with at least $10B in total deposits) operating in their state.
5 "Online lenders," also called fintech lenders, are nonbanks that lend online. Examples include Lending Club, OnDeck, CAN Capital, Paypal Working Capital, Kabbage, etc.
6 "Finance company" includes nonbank lenders such as mortgage companies, equipment dealers, insurance companies, auto finance companies, etc.
7 Community development financial institutions (CDFIs) are financial institutions that provide credit and financial services to underserved markets and populations. CDFIs are certified by the CDFI Fund at the US Department of the Treasury.

EMERGENCY FUNDING
Application Outcomes

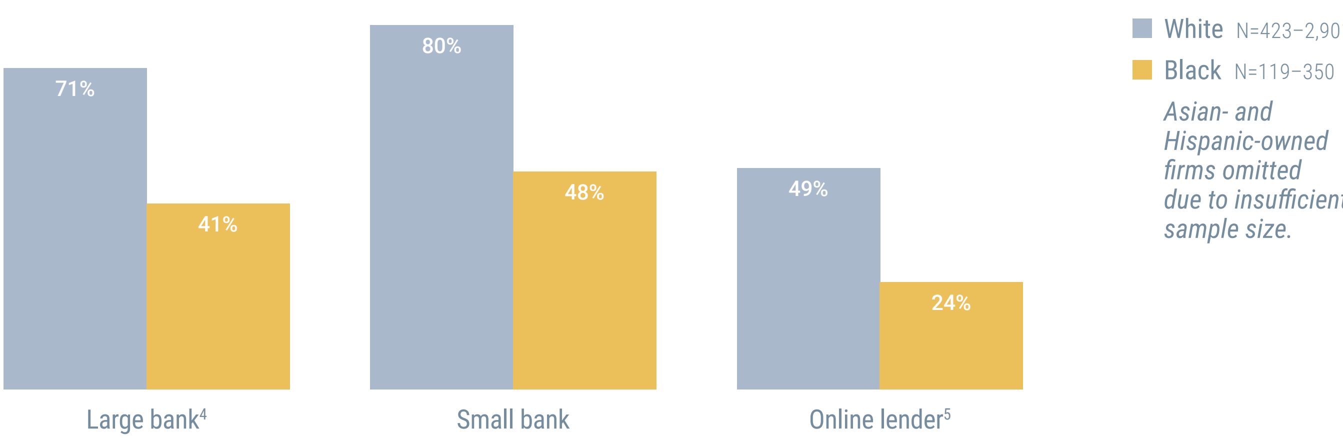
Black-owned firms were nearly half as likely as white-owned firms to receive all of the PPP funding they sought and were approximately five times as likely to receive none of the funding they sought.

PPP FUNDING RECEIVED, *As Share of Amount Sought*[1,2] (% of employer firm PPP applicants)



The gap in PPP approvals between white- and Black-owned firms persists across sources.

SHARE OF PPP APPLICANTS THAT RECEIVED ALL OF THE PPP FUNDING THEY SOUGHT, *By Source*[1,3]
(% of employer firm PPP applicants at source)



1 *The Paycheck Protection Program (PPP) is administered through the US Small Business Administration.*
2 *Percentages may not sum to 100 due to rounding.*
3 *Select lenders and firm categories shown. Others not shown due to insufficient observation counts.*
4 *Respondents were provided a list of large banks (those with at least $10B in total deposits) operating in their state.*
5 *"Online lenders," also called fintech lenders, are nonbanks that lend online. Examples include: Lending Club, OnDeck, CAN Capital, Paypal Working Capital, Kabbage, etc.*

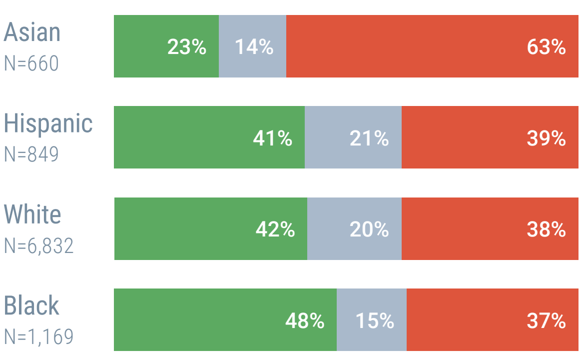
LOOKING AHEAD
Performance Expectations, Next 12 Months

Black-owned firms were more likely than other firms to expect increases in revenues and employment, while Asian-owned firms were less optimistic about growth in the next 12 months.

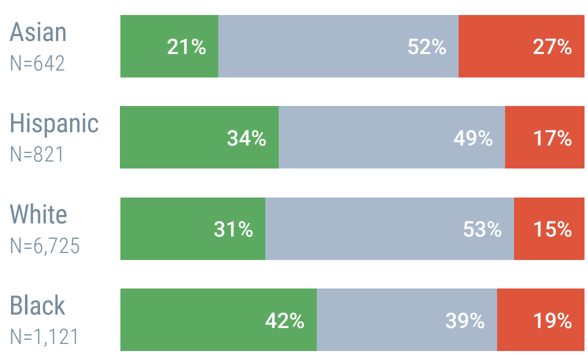
EMPLOYER FIRM EXPECTATIONS (% of employer firms)

Will increase No change Will decrease

REVENUE CHANGE,
Next 12 Months[1,2]



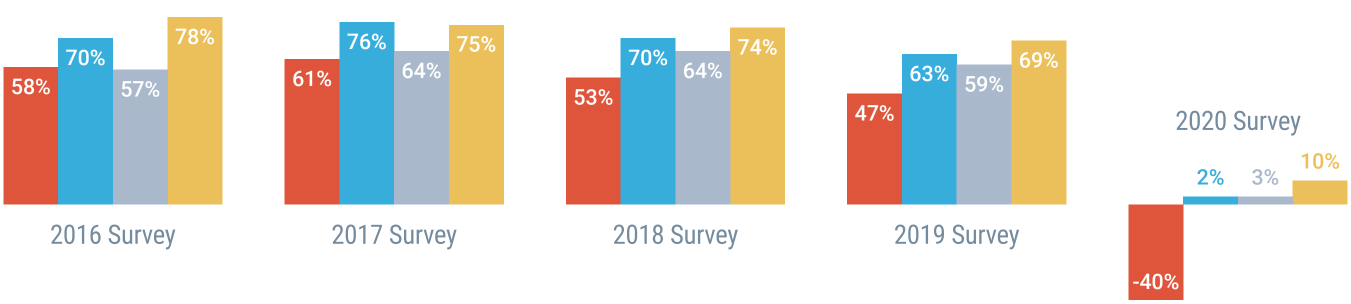
EMPLOYMENT CHANGE,
Next 12 Months[1,2]



Asian-owned firms saw the largest year-on-year drop in their revenue growth expectations.

EMPLOYER FIRM REVENUE EXPECTATIONS INDEX, *Next 12 Months*[3,4] (% of employer firms)

Asian N=192–660 Hispanic N=408–849 White N=3,852–7,892 Black N=448–1,169

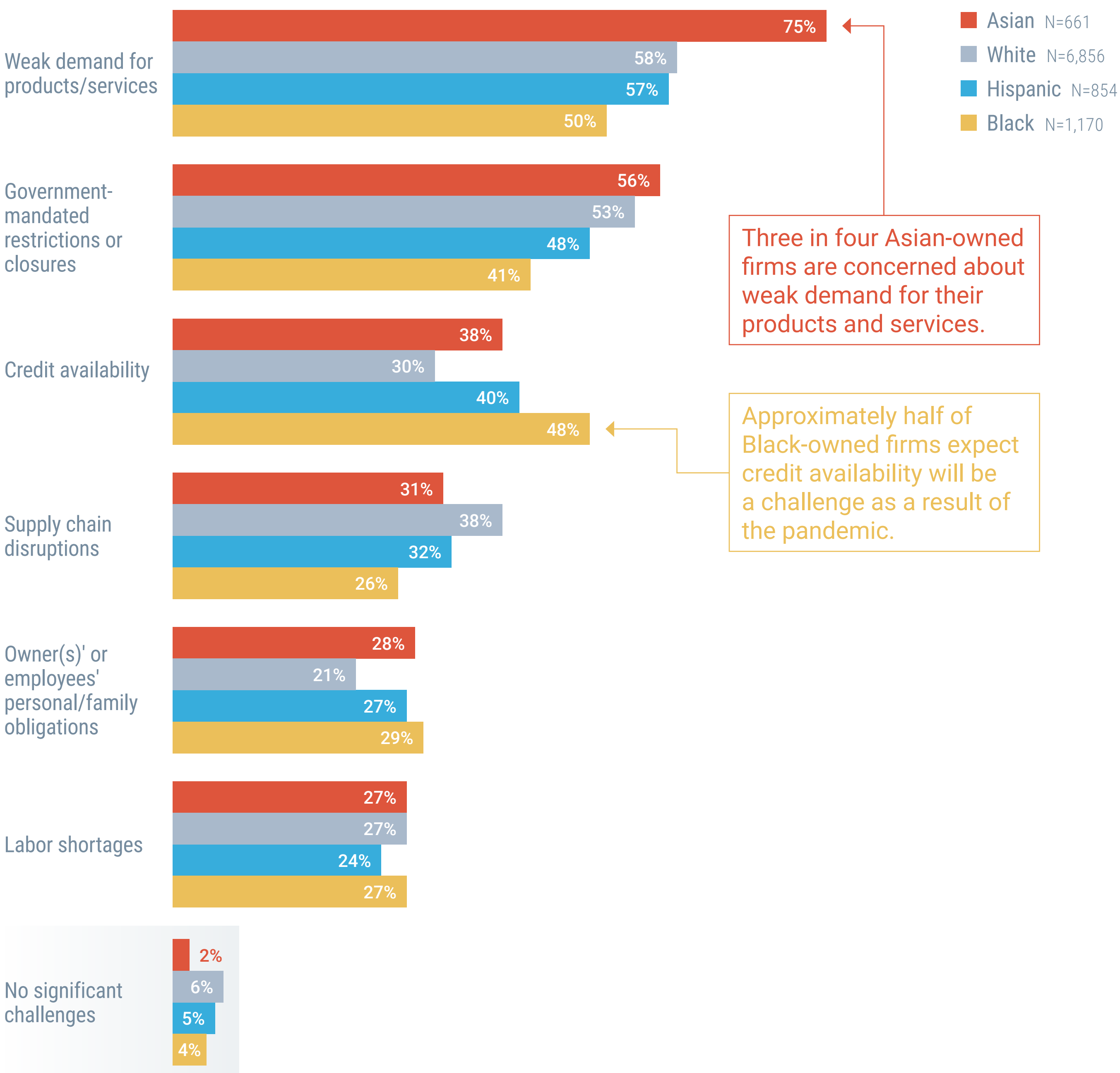


1 Next 12 months is approximately the second half of 2020 through the second half of 2021.
2 Percentages may not sum to 100 due to rounding.
3 The index is the share reporting expected growth minus the share reporting a reduction.
4 Expected change in approximately the second half of the surveyed year through the second half of the following year.

LOOKING AHEAD

Expected Challenges Resulting from the Pandemic, Next 12 Months

CHALLENGES FIRMS EXPECT TO FACE AS A RESULT OF THE PANDEMIC, *Next 12 Months*[1,2,3]
(% of employer firms)

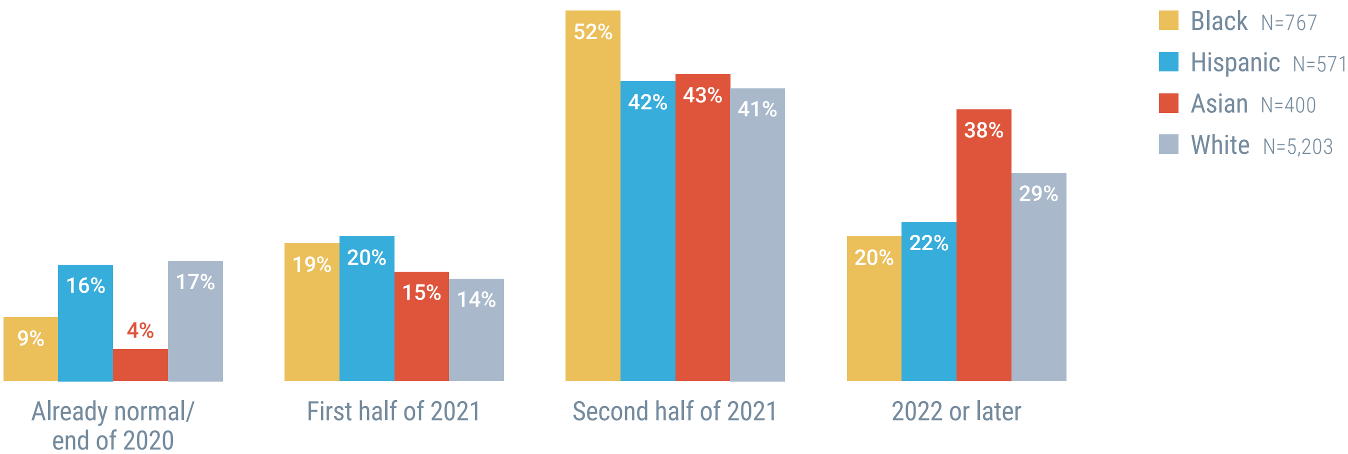


1 *Next 12 months is approximately the second half of 2020 through the second half of 2021.*
2 *Respondents could select multiple options.*
3 *Response option "other" not shown in chart. See Appendix for more detail.*

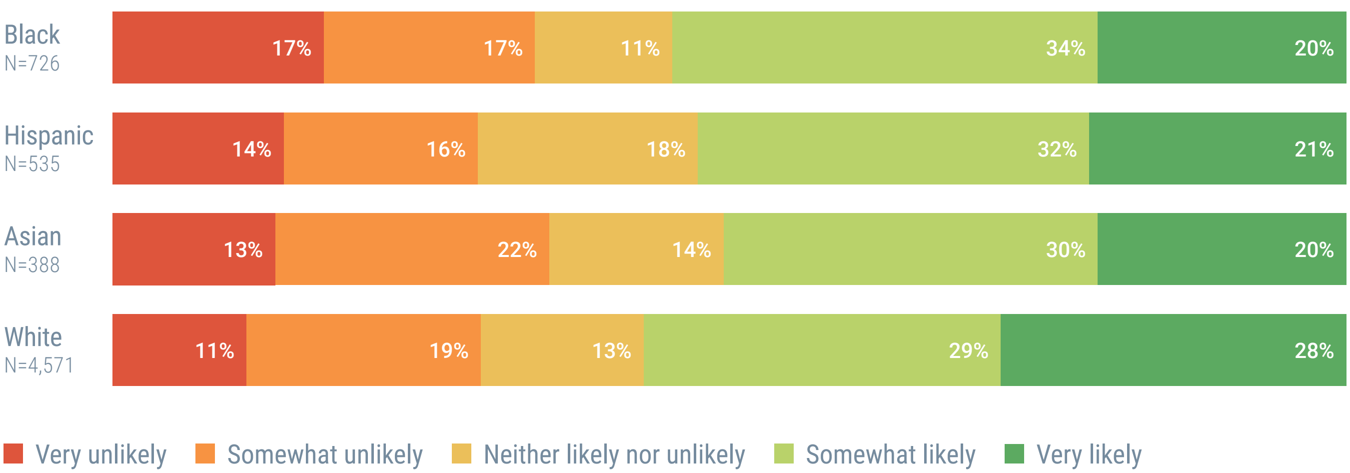
LOOKING AHEAD
Survival Expectations

At the time of the survey, 81% of Asian-owned firms expected that sales would not return to normal until at least the second half of 2021.

EXPECTED TIMING OF SALES' RETURN TO "NORMAL" (I.E., 2019 LEVELS)[1,2,3] (% of employer firms)



LIKELIHOOD FIRMS WILL SURVIVE WITHOUT ADDITIONAL GOVERNMENT ASSISTANCE UNTIL SALES RETURN TO NORMAL[1,2]
(% of employer firms for which sales had not yet returned to normal)

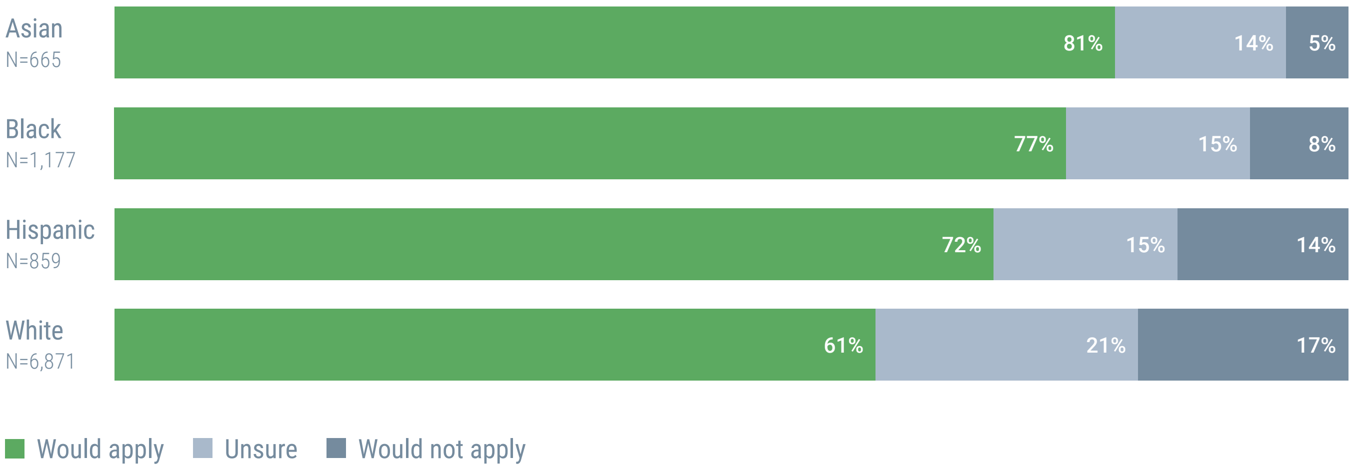


1 *Percentages may not sum to 100 due to rounding.*
2 *Data on sales recovery and firm survival expectations were drawn from questions in the optional end-of-survey module (completed by approximately 80% of respondents). This subset of respondents is re-weighted to be reflective of the overall small-firm population.*
3 *At time of survey, September through October 2020.*

LOOKING AHEAD
Plans to Apply for Emergency Assistance in the Future

Firms owned by people of color were more likely than white-owned firms to report that they would apply for future government-provided emergency assistance it if was made available.

FIRMS' PLANS TO APPLY FOR FUTURE GOVERNMENT-PROVIDED EMERGENCY ASSISTANCE FUNDING IF IT WAS MADE AVAILABLE[1,2] (% of employer firms)

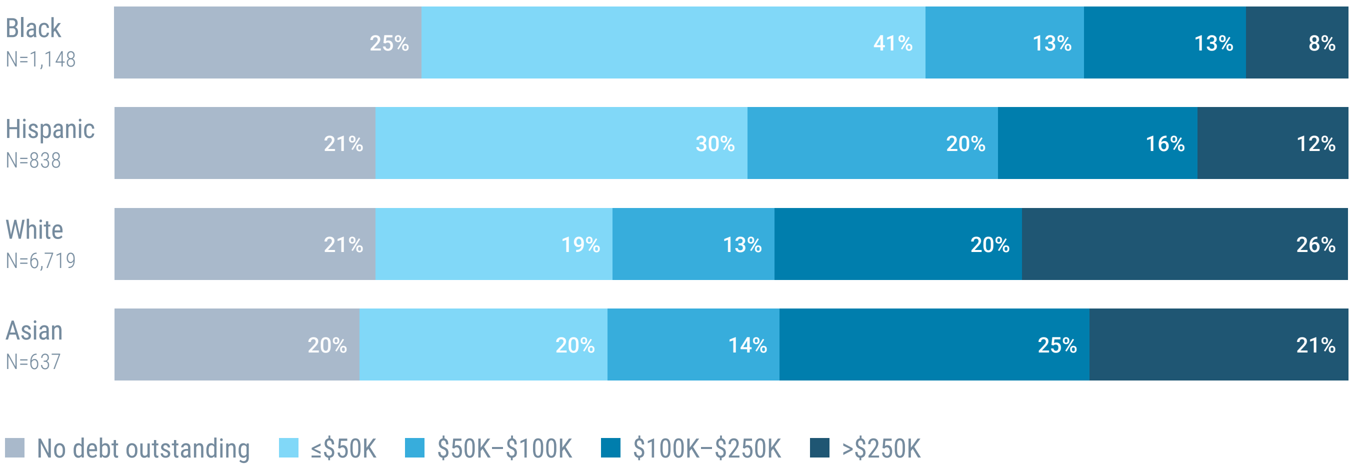


1 *Percentages may not sum to 100 due to rounding.*
2 *The survey was administered in September and October of 2020, after the close of 2020 PPP funding and prior to the announcement of new PPP funding. Therefore, respondents were asked about their firms' intent to apply for hypothetical, undefined future government-provided funding.*

DEBT & FINANCING
Debt Outstanding

Black-owned firms have smaller amounts of debt than other firms.

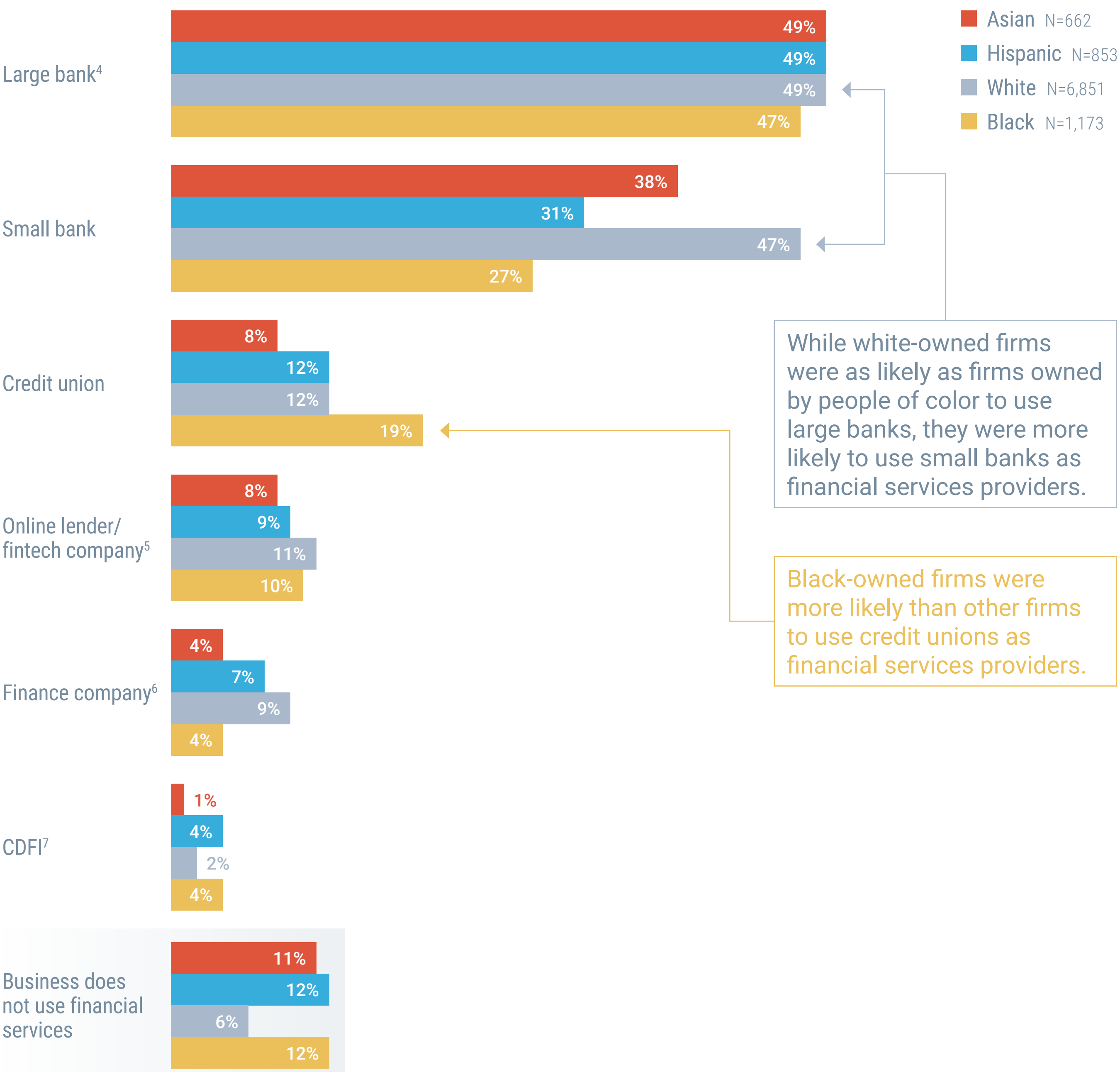
AMOUNT OF DEBT, *At Time of Survey*[1,2,3,4] (% of employer firms)



1 *Respondents were instructed to exclude loans they expected would be forgiven from their outstanding debt (for example, PPP loans).*
2 *Categories have been condensed and simplified for readability. Actual response options are: ≤$25K, $25,001–$50K, $50,001–$100K, $100,001–$250K, $250,001–$1M, >$1M.*
3 *At time of survey, September through October 2020.*
4 *Percentages may not sum to 100 due to rounding.*

About 1 in 10 firms owned by people of color do not use financial services.

USE OF FINANCIAL SERVICES PROVIDERS[1,2,3] (% of employer firms)



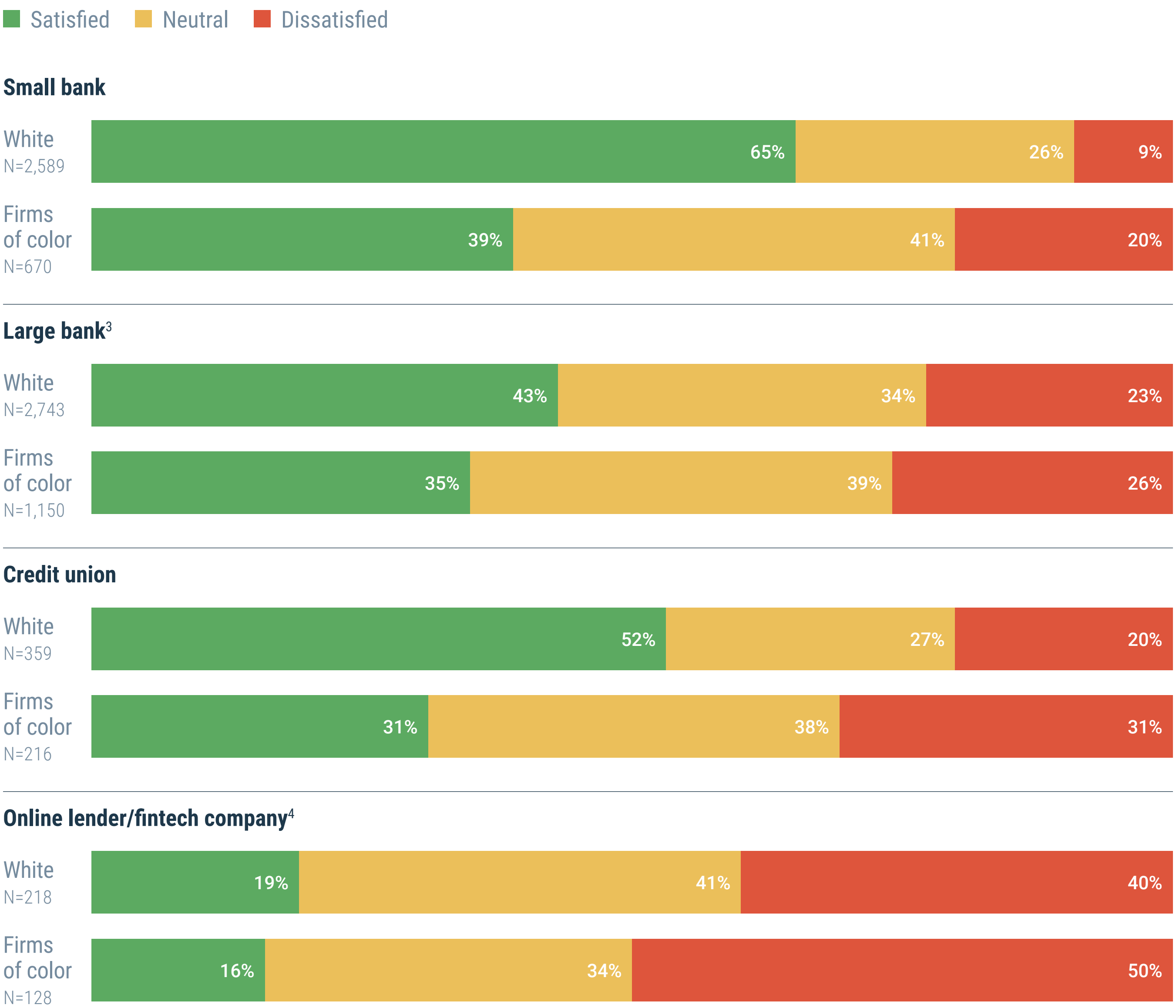
1 *Financial services providers are those at which the firm has an account or uses other financial services (including loans, payments processing, etc.).*
2 *Respondents could select multiple options.*
3 *Response options "Alternative financial source" and "Other" not shown. See Appendix for more detail.*
4 *Respondents were provided a list of large banks (those with at least $10B in total deposits) operating in their state.*
5 *Online lenders/fintech companies are nonbanks that operate online. Examples include: OnDeck, Kabbage, Paypal, Square, etc.*
6 *"Finance company" includes nonbank lenders such as mortgage companies, equipment dealers, insurance companies, auto finance companies, etc.*
7 *Community development financial institutions (CDFIs) are financial institutions that provide credit and financial services to underserved markets and populations. CDFIs are certified by the CDFI Fund at the US Department of the Treasury.*

DEBT & FINANCING

Satisfaction with Primary Financial Services Providers

Firms owned by people of color were less satisfied than white-owned firms with the support from their primary financial services provider during the pandemic. Regardless of owner race or ethnicity, firms were less satisfied with online lenders than with banks and credit unions.

SATISFACTION WITH SUPPORT FROM PRIMARY FINANCIAL SERVICES PROVIDER DURING THE PANDEMIC[1,2] (% of employer firms that use provider)



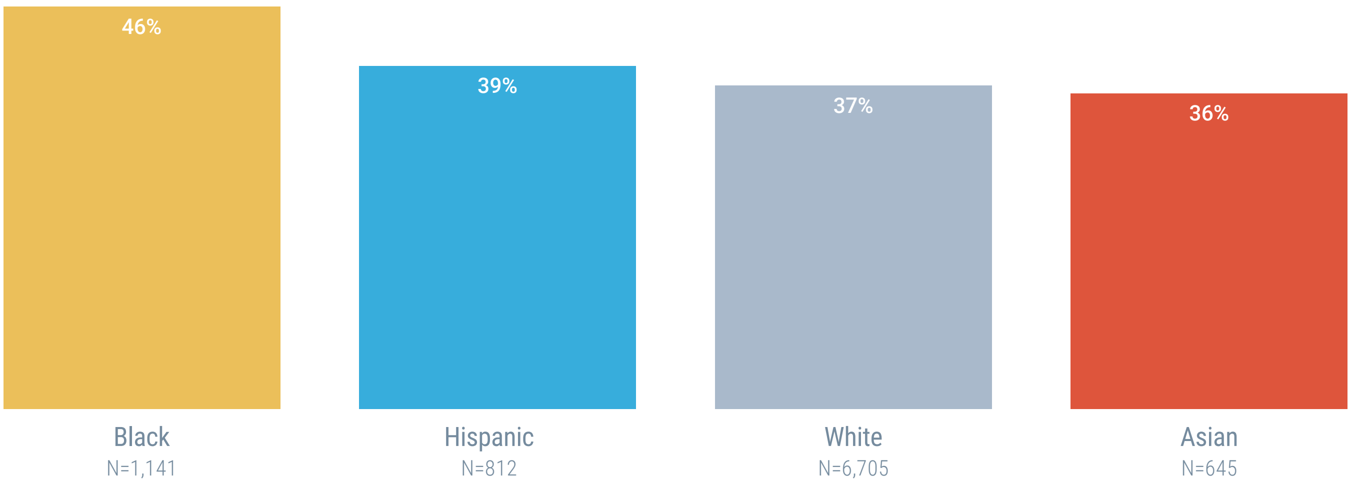
1 *For this chart, "firms of color" includes Native American-owned firms, in addition to Black-, Asian-, and Hispanic-owned firms.*
2 *Satisfaction is available for only respondents' primary financial services providers. Select providers shown. See Appendix for details.*
3 *Respondents were provided a list of large banks (those with at least $10B in total deposits) operating in their state.*
4 *Online lenders/fintech companies are nonbanks that operate online. Examples include: OnDeck, Kabbage, Paypal, Square, etc.*

DEBT & FINANCING

Demand for Non-Emergency Financing, Prior 12 Months

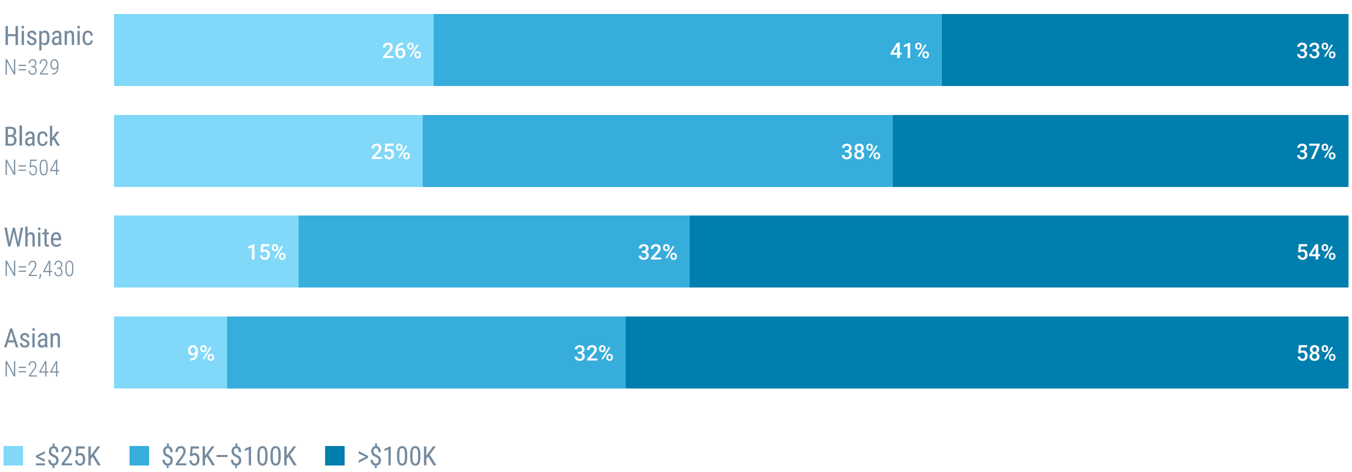
Black-owned firms were more likely than other firms to apply for non-emergency financing in the 12 months prior to the survey.

SHARE THAT APPLIED FOR FINANCING, *Prior 12 Months*[1,2] (% of employer firms)
Application rate excludes PPP and other pandemic-related emergency funding applications.



One-quarter of Black- and Hispanic-owned firms that applied for financing sought $25,000 or less.

TOTAL AMOUNT OF FINANCING SOUGHT, *Prior 12 Months*[1,2,3,4] (% of employer firm applicants)



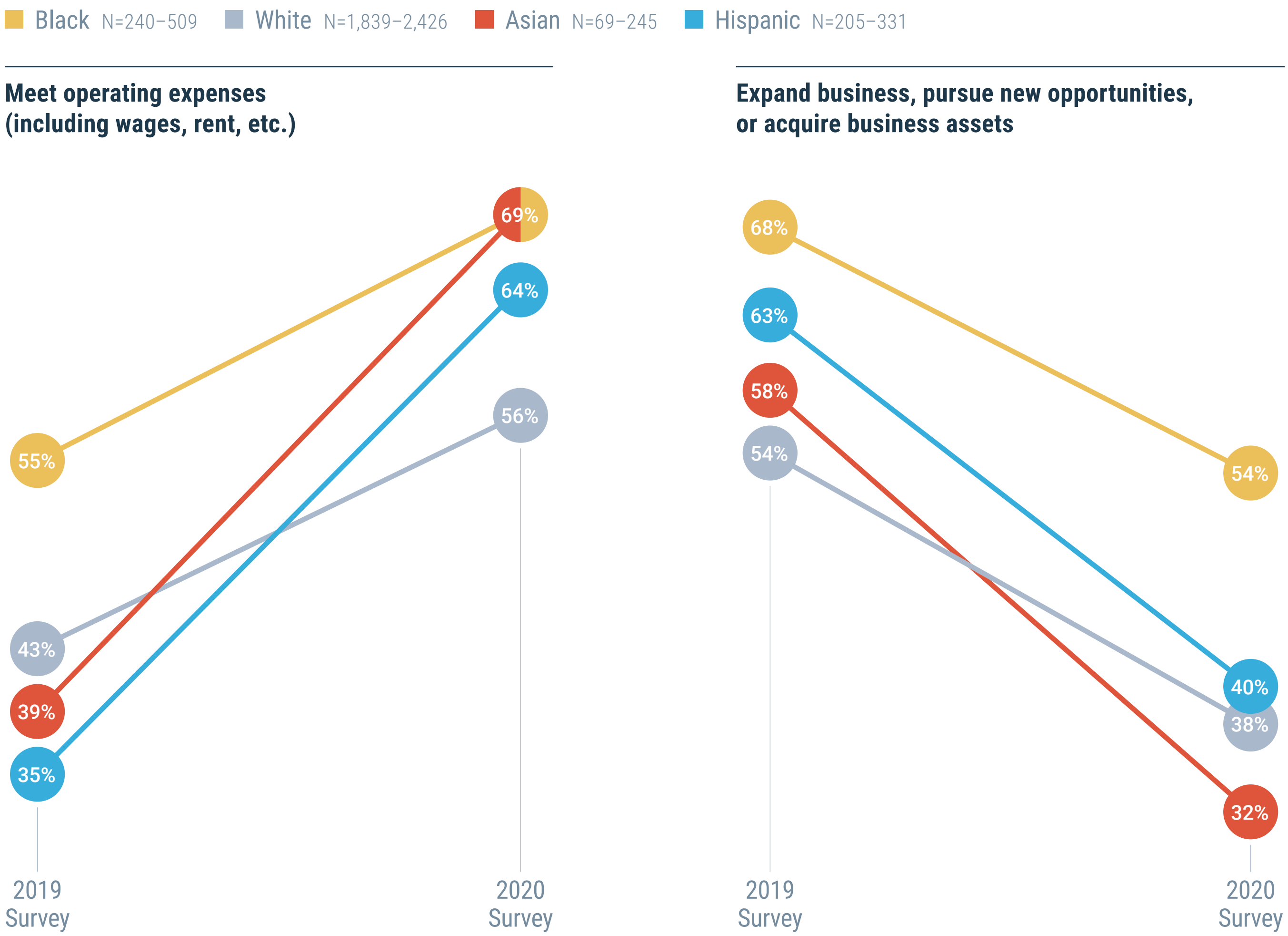
1 *Excludes emergency funding applications.*
2 *Approximately the second half of 2019 through the second half of 2020.*
3 *Categories have been condensed and simplified for readability. Actual response options are: ≤$25K, $25,001–$50K, $50,001–$100K, $100,001–$250K, $250,001–$1M, >$1M.*
4 *Percentages may not sum to 100 due to rounding.*

DEBT & FINANCING

Demand for Non-Emergency Financing, Prior 12 Months (Continued)

In 2020, firms owned by people of color were more likely than white-owned firms to apply for financing to meet operating expenses.

SELECT REASONS FOR APPLYING[1,2,3] (% of employer firm applicants)

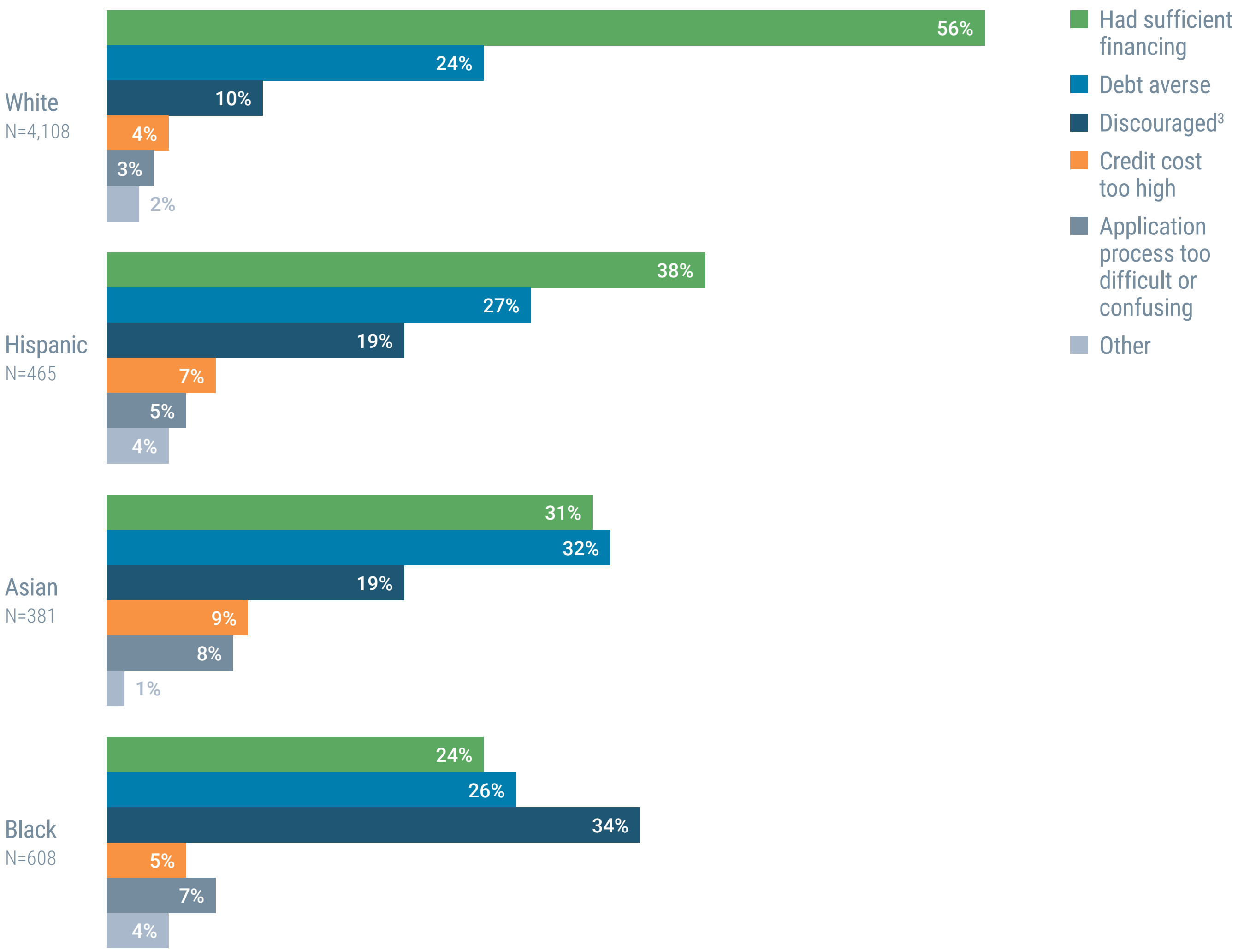


1 *Excludes emergency funding applications.*
2 *Respondents could select multiple options.*
3 *Select response options shown. See Appendix for more detail.*

DEBT & FINANCING
Nonapplicants

In aggregate, 63% of all employer firms were nonapplicants, meaning they did not apply for non-emergency financing in the prior 12 months.[1] The majority of nonapplicant firms owned by people of color needed funds but chose not to apply, compared to 44% of white-owned firms.

REASONS FIRMS DID NOT APPLY FOR FINANCING[2] (% of employer firm nonapplicants)



1 *Approximately the second half of 2019 through the second half of 2020.*
2 *Percentages may not sum to 100 due to rounding.*
3 *Discouraged firms are those that did not apply for financing because they believed they would be turned down.*

FUNDING NEEDS AND OUTCOMES

To gauge funding success and shortfalls, we combine applicants' financing outcomes and nonapplicants' reasons for not applying. Firms that had their funding needs met emerge in two forms:

1) Applicant firms that received the full amount of financing sought; or

2) Nonapplicant firms that did not apply for financing because they already had sufficient financing.

The remaining firms have unmet funding needs. When applicant firms did not obtain the full amount of financing sought, we consider them to have a financing shortfall. When nonapplicant firms reported they did not have sufficient financing, we consider them to have unmet funding needs.

The chart on the next page highlights differences in funding needs and outcomes by firm owners' race and ethnicity. We find that:

Financing shortfalls were most common among Black-owned firms and least common among white-owned firms.

Most firms of color did not have their financing needs met, whereas half of white-owned firms did.

Firms of color, and particularly Asian-owned firms, were more likely than white-owned firms to have unmet funding needs.

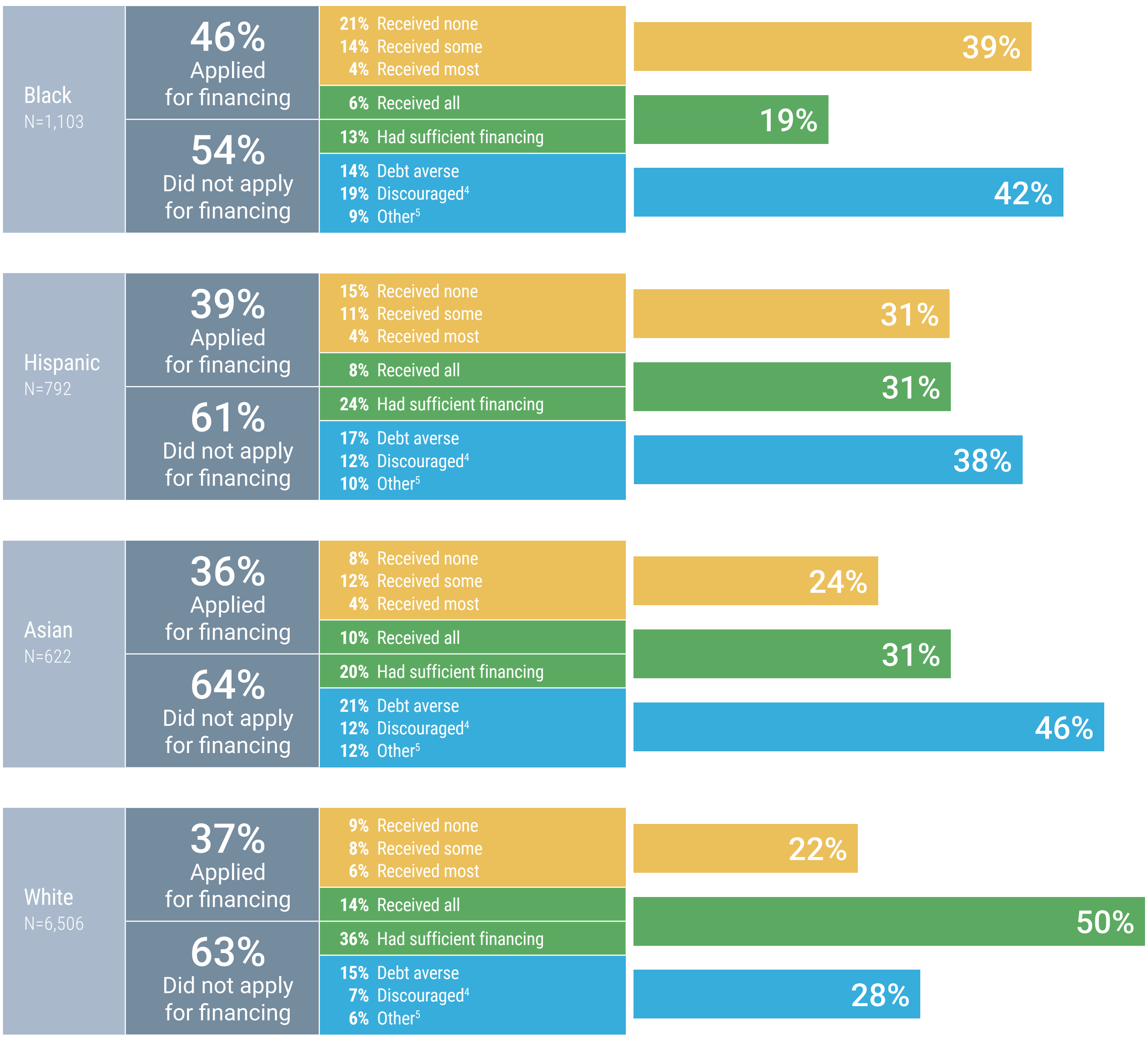
See chart on next page

DEBT & FINANCING

Financing Needs and Outcomes (Continued)

FUNDING NEEDS AND OUTCOMES, *Prior 12 Months*[1,2,3] (% of employer firms)

Had a financing shortfall | Financing needs met | Have unmet funding needs



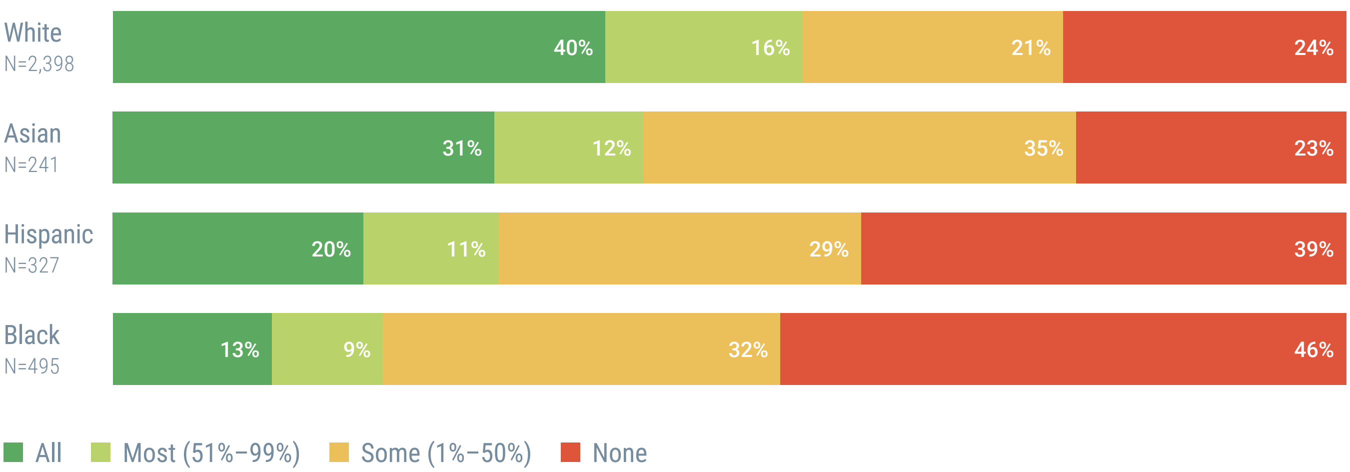
1 *Prior 12 months is approximately the second half of 2019 through the second half of 2020.*
2 *Excludes emergency funding applications.*
3 *Percentages may not sum to the combined shares shown due to rounding.*
4 *Discouraged firms are those that did not apply for financing because they believed they would be turned down.*
5 *Response option "other" includes "credit cost was too high," "application process was too difficult or confusing," and "other." See Appendix for more detail.*

DEBT & FINANCING

Financing Received

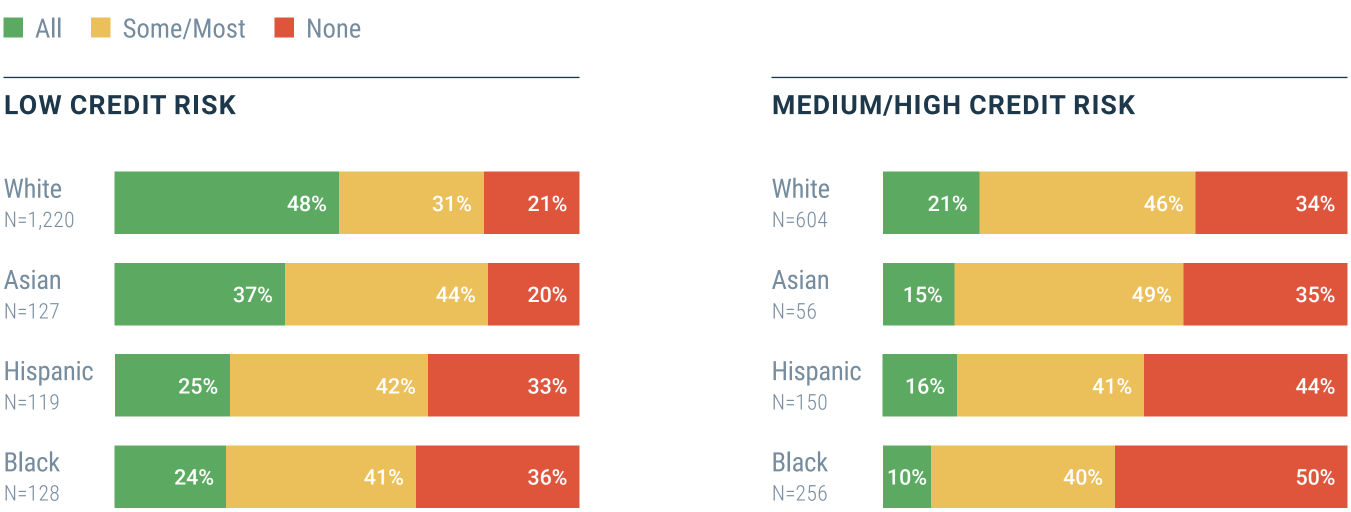
Just 13% of Black-owned firms received all of the non-emergency financing they sought in the 12 months prior to the survey, compared to 40% of white-owned firms.

TOTAL FINANCING RECEIVED[1,2] (% of employer firm applicants)



Black-owned firms with high credit scores were half as likely as their white counterparts to receive all of the non-emergency financing they sought.

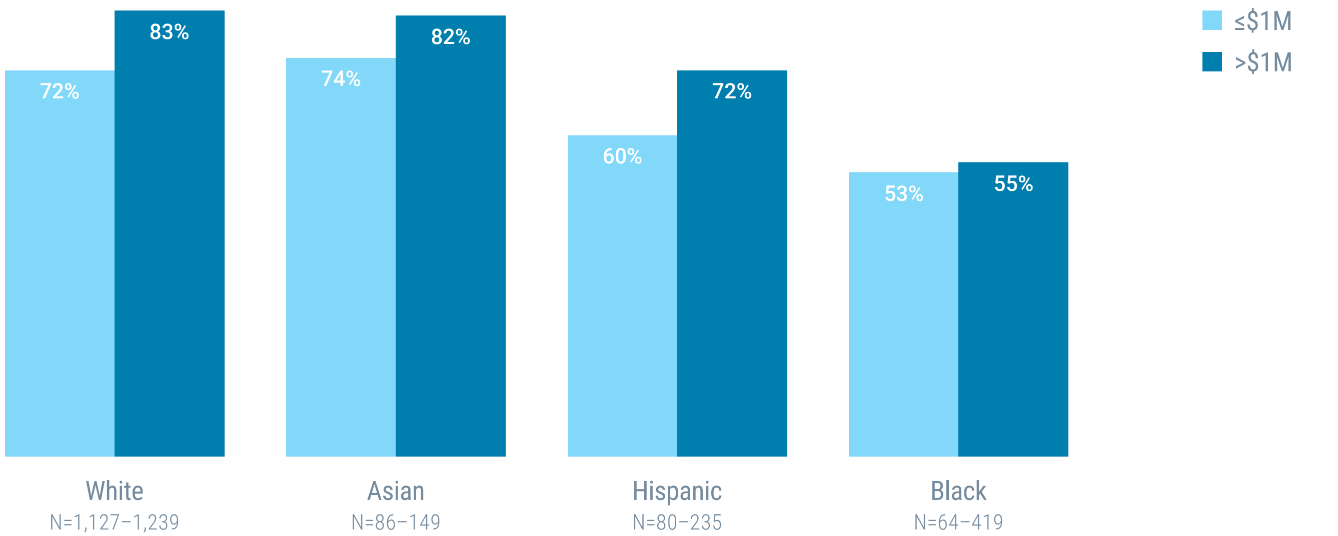
TOTAL FINANCING RECEIVED BY CREDIT RISK OF FIRM[1,2,3] (% of employer firm applicants)



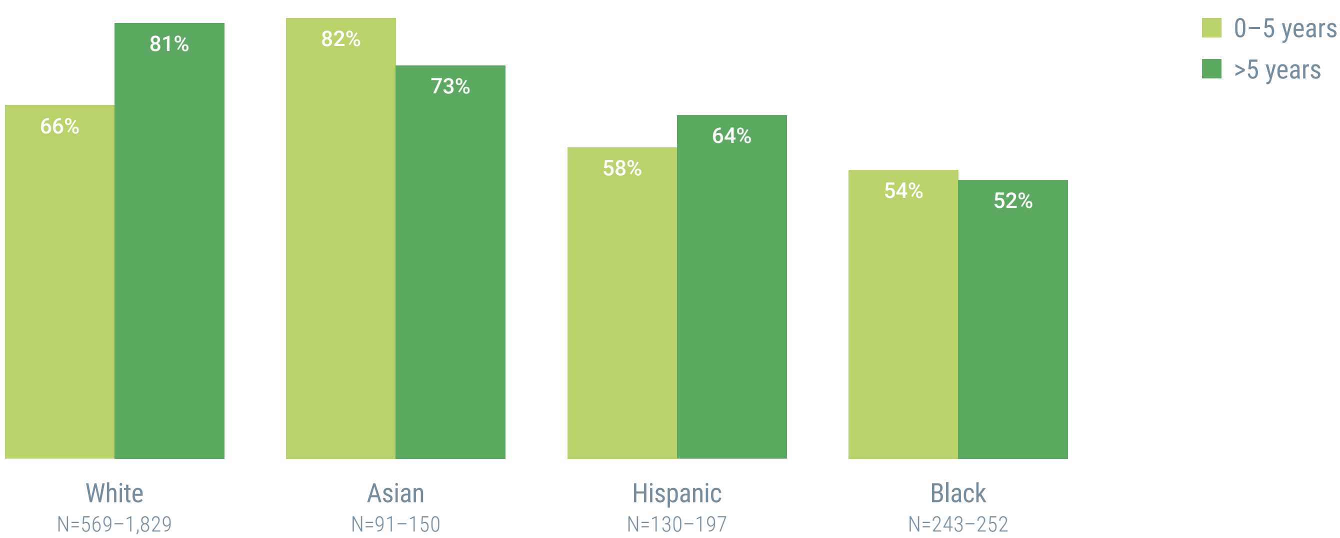
1 *Percentages may not sum to 100 due to rounding.*
2 *Excludes emergency funding applications*
3 *Credit risk is determined by the self-reported business credit score or personal credit score, depending on which is used to obtain financing for their business. If the firm uses both, the higher risk rating is used. "Low credit risk" is a 80–100 business credit score or 720+ personal credit score. "Medium credit risk" is a 50–79 business credit score or a 620–719 personal credit score. "High credit risk" is a 1–49 business credit score or a <620 personal credit score.*

Approximately half of Black-owned firms received at least some of the financing they sought, regardless of revenue size and years in business.

SHARE RECEIVING AT LEAST SOME FINANCING BY REVENUE SIZE OF FIRM[1] (% of employer firm applicants)



SHARE RECEIVING AT LEAST SOME FINANCING BY AGE OF FIRM[1] (% of employer firm applicants)



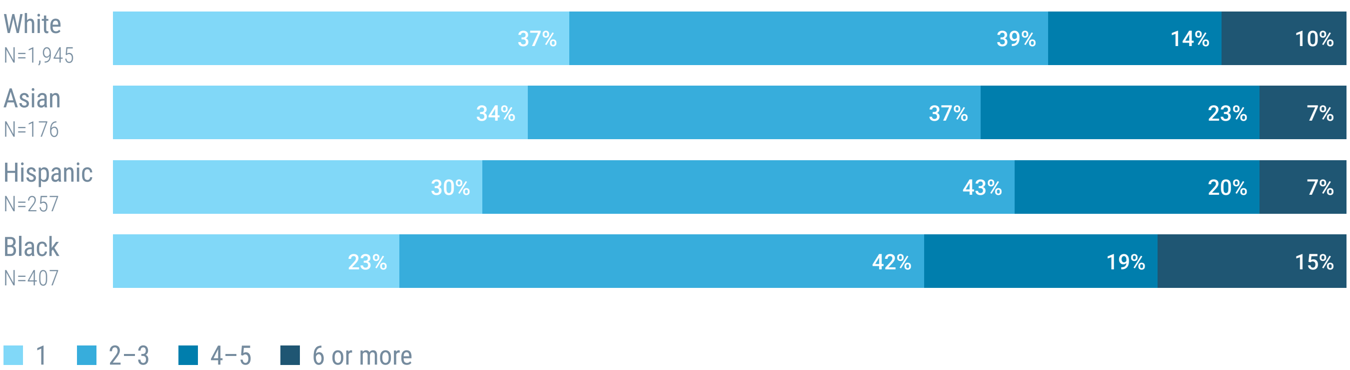
1 *Excludes emergency funding applications.*

FINANCING APPLICATIONS

Loan, Line of Credit, and Cash Advance Applications

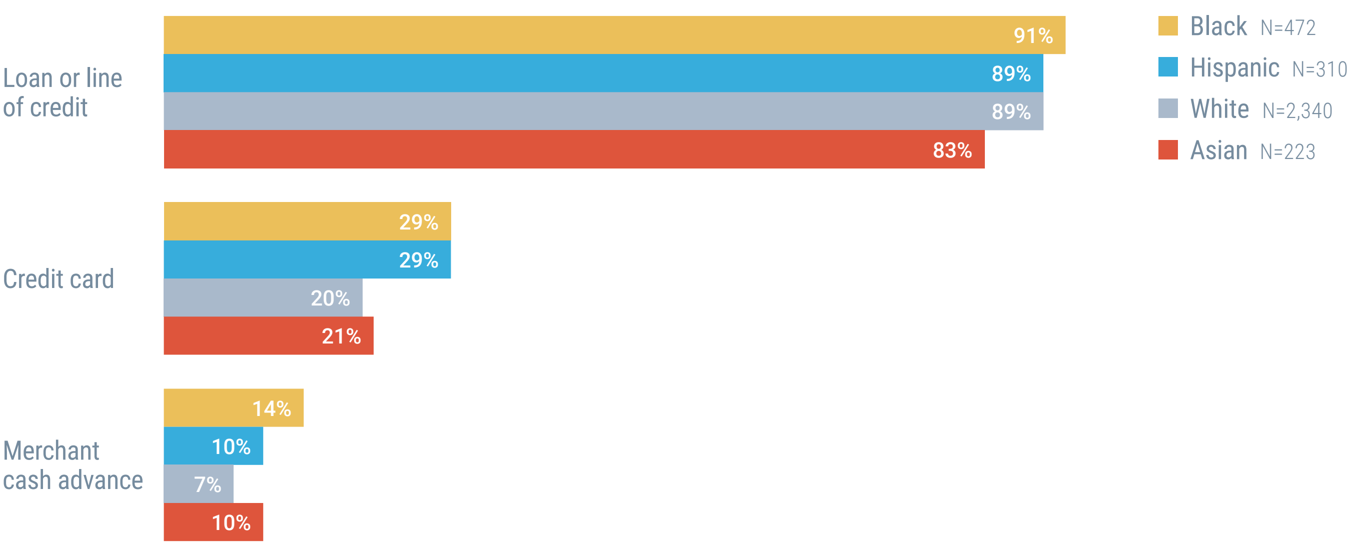
On average, Black-owned firms completed more financing applications than other applicant firms.

NUMBER OF LOAN, LINE OF CREDIT, AND CASH ADVANCE APPLICATIONS, *Prior 12 Months*[1,2,3]
(% of employer firm loan, line of credit, and cash advance applicants)



Among all firms, loans and lines of credit were the most commonly sought products.

TOP FINANCING AND CREDIT PRODUCTS SOUGHT[1,4,5] (% of employer firm applicants)



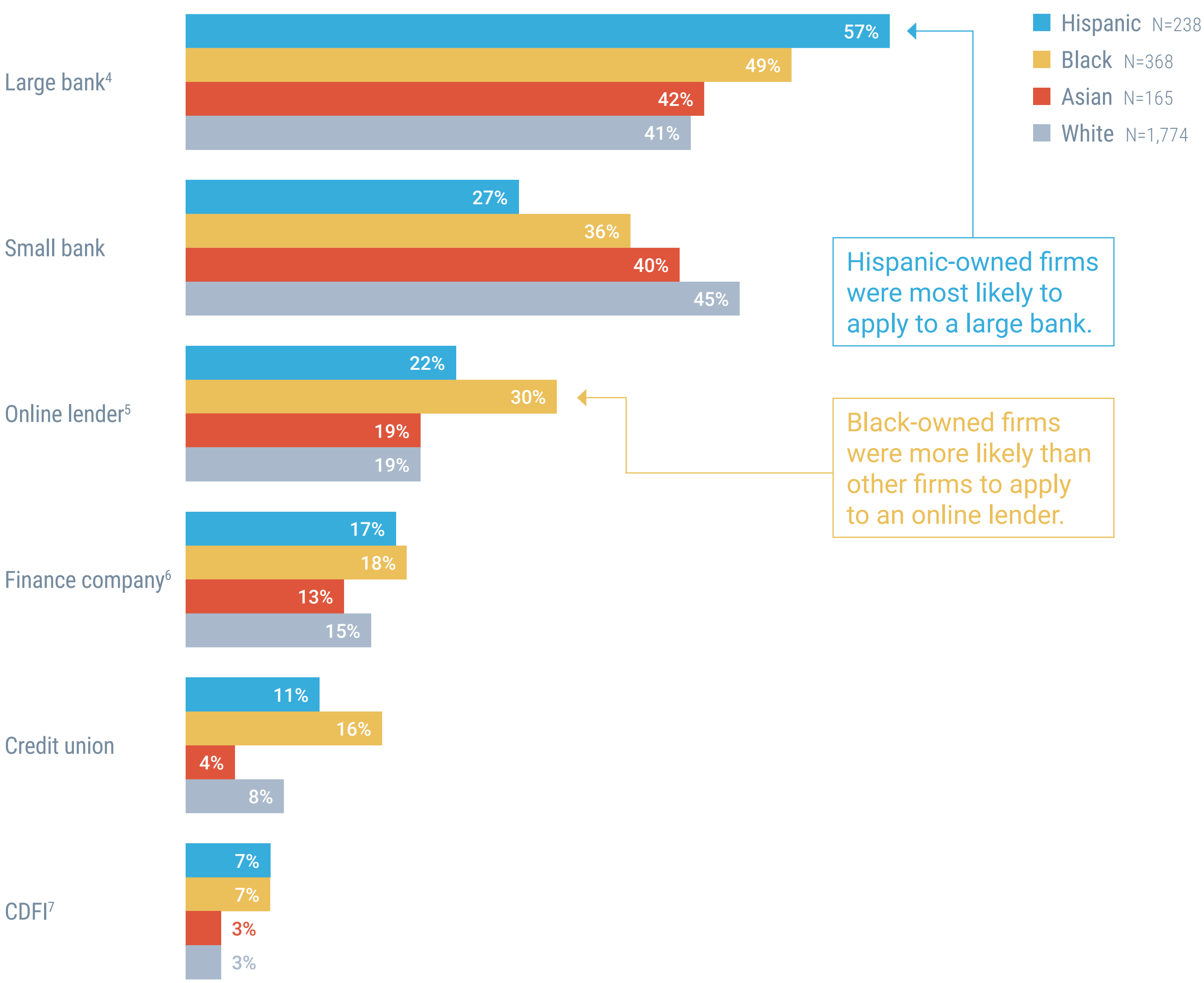
1 *Excludes emergency funding applications.*
2 *Percentages may not sum to 100 due to rounding.*
3 *Approximately the second half of 2019 through the second half of 2020.*
4 *Respondents could select multiple options.*
5 *Select response options shown. See Appendix for more detail.*

FINANCING APPLICATIONS

Loan, Line of Credit, and Cash Advance Applications (Continued)

Firms owned by people of color more often turned to large banks for financing, while white-owned firms more often applied to small banks.

CREDIT SOURCES APPLIED TO[1,2,3] (% of employer firm loan, line of credit, and cash advance applicants)



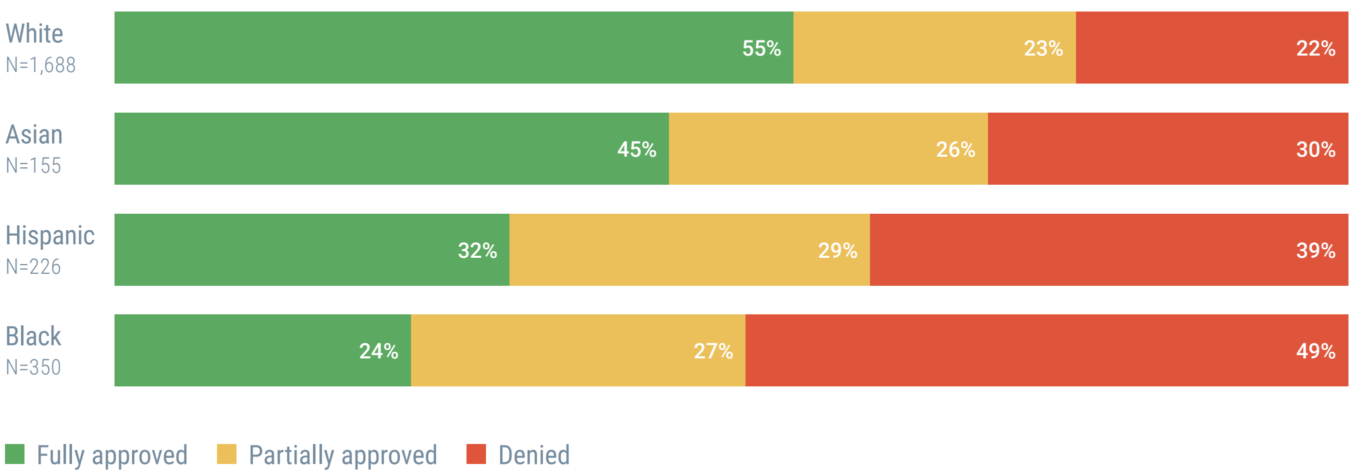
1 *Respondents could select multiple options.*
2 *Excludes emergency funding applications.*
3 *Response option "other" not shown in chart. See Appendix for more detail.*
4 *Respondents were provided a list of large banks (those with at least $10B in total deposits) operating in their state.*
5 *"Online lenders," also called fintech lenders, are nonbanks that lend online. Examples include: Lending Club, OnDeck, CAN Capital, Paypal Working Capital, Kabbage, etc.*
6 *"Finance company" includes nonbank lenders such as mortgage companies, equipment dealers, insurance companies, auto finance companies, etc.*
7 *Community development financial institutions (CDFIs) are financial institutions that provide credit and financial services to underserved markets and populations. CDFIs are certified by the CDFI Fund at the US Department of the Treasury.*

FINANCING APPLICATIONS

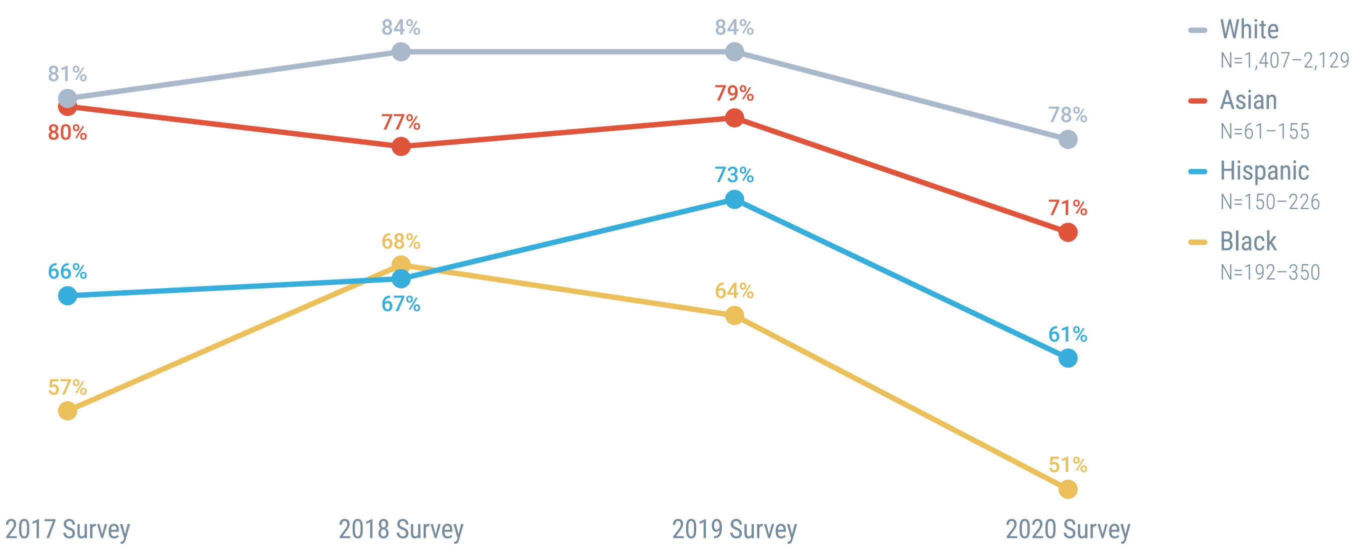
Loan, Line of Credit, and Cash Advance Approvals

Black-owned applicant firms were half as likely as white-owned applicant firms to be fully approved for loans, lines of credit, and cash advances.

OUTCOMES OF LOAN, LINE OF CREDIT, AND MERCHANT CASH ADVANCE APPLICANTS, *Prior 12 Months*[1,2,3] (% of employer firm loan, line of credit, and cash advance applicants)



SHARE OF LOAN, LINE OF CREDIT, AND MERCHANT CASH ADVANCE APPLICANTS THAT WERE AT LEAST PARTIALLY APPROVED, *Prior 12 Months*[2,3] (% of employer firm loan, line of credit, and cash advance applicants)

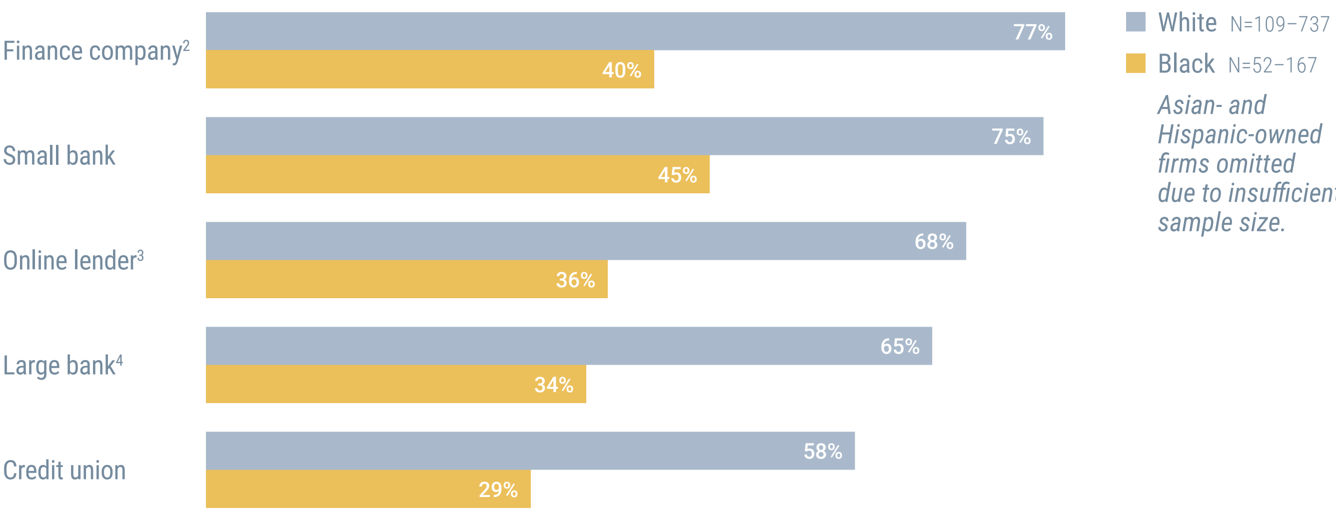


1 *Percentages may not sum to 100 due to rounding.*
2 *Excludes emergency funding applications.*
3 *Approximately the second half of the prior year through the second half of the surveyed year.*

FINANCING APPLICATIONS

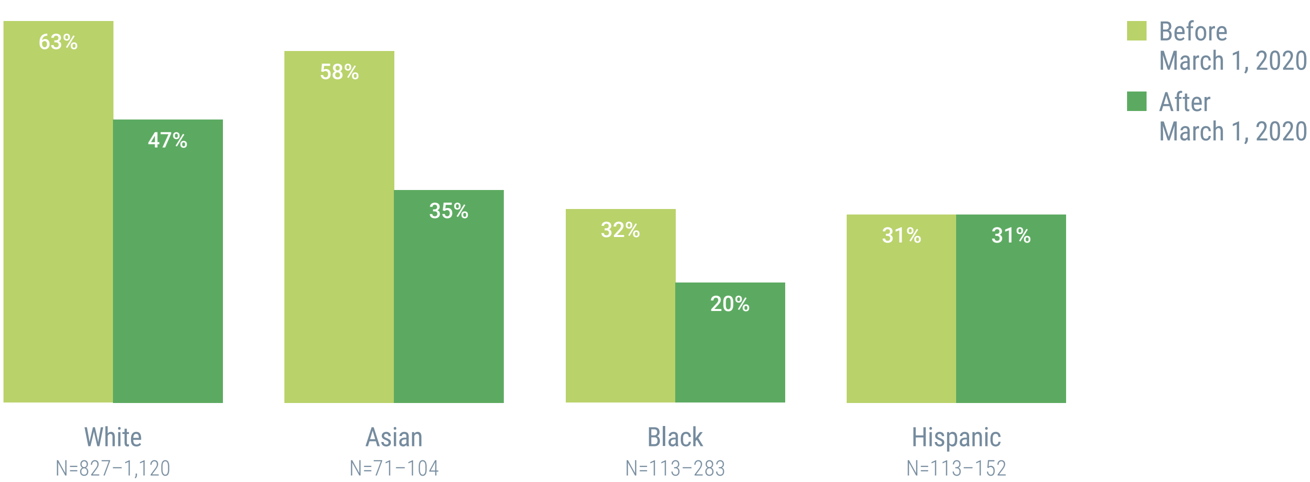
Loan, Line of Credit, and Cash Advance Approvals (Continued)

SHARE OF LOAN, LINE OF CREDIT, AND MERCHANT CASH ADVANCE APPLICANTS THAT WERE AT LEAST PARTIALLY APPROVED, *By Source*[1] (% of employer firm loan, line of credit, and cash advance applicants at source)



The share of white-owned applicant firms that were fully approved fell after the onset of the pandemic but still remained higher than the pre-pandemic share of Black- and Hispanic-owned applicant firms that were fully approved.

LOAN, LINE OF CREDIT, AND CASH ADVANCE APPLICANTS RECEIVING ALL FINANCING SOUGHT, *Before and After March 1, 2020*[1] (% of employer firm loan, line of credit, and cash advance applicants)



1 *Excludes emergency funding applications.*
2 *"Finance company" includes nonbank lenders such as mortgage companies, equipment dealers, insurance companies, auto finance companies, etc.*
3 *"Online lenders," also called fintech lenders, are nonbanks that lend online. Examples include: Lending Club, OnDeck, CAN Capital, Paypal Working Capital, Kabbage, etc.*
4 *Respondents were provided a list of large banks (those with at least $10B in total deposits) operating in their state.*

NONEMPLOYER FIRMS

FINDINGS FOR NONEMPLOYER FIRMS

Nonemployer firms—firms that have no paid employees other than the owner(s)—represent the overwhelming majority of small businesses across the country. In fact, of the 31.7 million small businesses across the country, 25.7 million of them are nonemployer firms.[1] Moreover, a disproportionate share of firms owned by people of color are nonemployer firms. In all, 96% and 91% of Black- and Hispanic- owned firms are nonemployer firms, respectively, compared to 78% and 75% of white- and Asian-owned firms.[2] Therefore, pandemic-related challenges faced by the nonemployer firms outlined in this section of the report are particularly relevant for firms of color.

A future report will describe findings from the 2020 SBCS for nonemployers in greater detail, but given the share of firms of color that are nonemployers, these data are helpful to understanding the pandemic's impact on firms owned by people of color.

According to the 2020 SBCS, nonemployer firms were more likely to be in poor or fair financial condition, were less likely to have successfully accessed emergency funding, and reported poorer outcomes when applying for financing than small employer firms. The challenges facing these firms are significant because for 59% of nonemployers, the firms are the primary source of income for the owners' households.[3]
Other key findings include:

Approximately half of Asian-owned nonemployer firms reported poor financial conditions. They were most likely among all firms to apply for emergency assistance funding in response to the pandemic.

Just 3 in 10 Black-owned nonemployer firms applied for a PPP loan, and those nonemployer firms were less likely than their employer firm counterparts to receive all of the PPP funds they sought.

Eighty-seven percent of Hispanic-owned nonemployer firms expected sales declines through 2020 due to the pandemic.

While white-owned nonemployer firms encountered fewer financial difficulties than nonemployers of color, they reported worse financial conditions than white-owned employer firms.

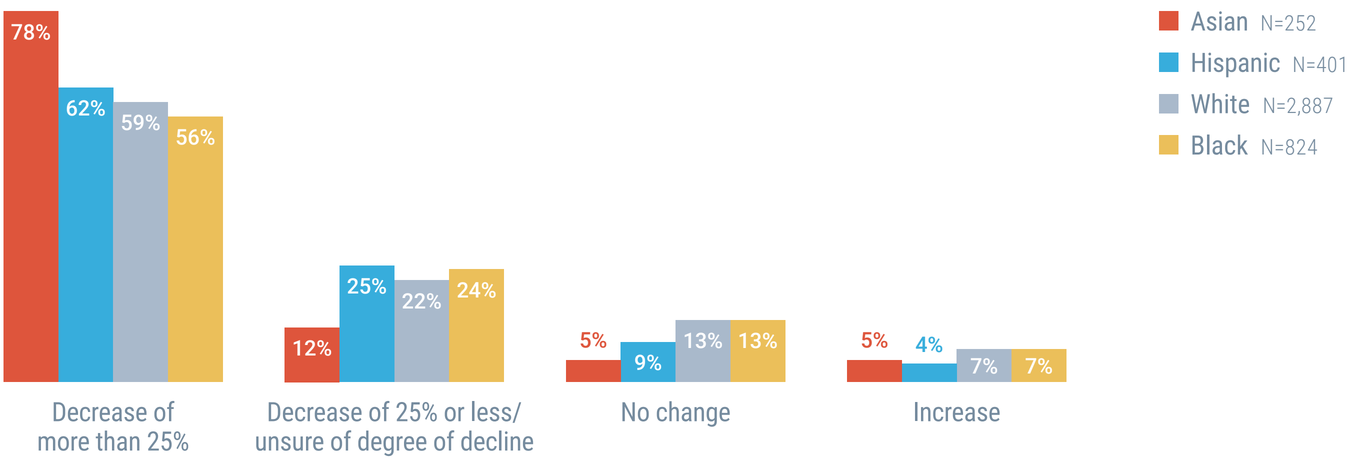
1 *US Small Business Administration Office of Advocacy. "2020 Small Business Profile." cdn.advocacy.sba.gov/wp-content/uploads/2020/06/04144224/2020-Small-Business-Economic-Profile-US.pdf.*
2 *Based on authors' calculations of the US Census Bureau, 2012 Survey of Business Owners.*
3 *Based on authors' calculations of the 2020 Small Business Credit Survey.*

NONEMPLOYER FIRMS

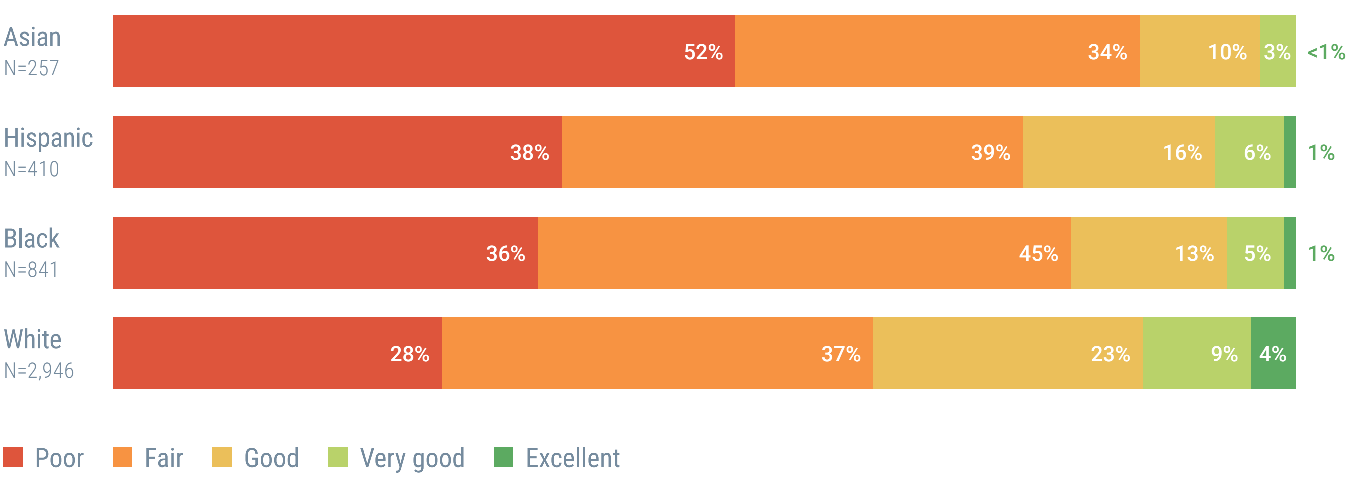
Pandemic Sales Impact and Financial Condition

Compared to other nonemployer firms, Asian-owned nonemployer firms reported the most significant impact on sales as a result of the pandemic. They were most likely to report their firm was in "poor" financial condition at the time of the survey.

EXPECTED IMPACT OF THE PANDEMIC ON TOTAL SALES FOR 2020[1] (% of nonemployer firms)



FINANCIAL CONDITION, *At Time of Survey*[1,2] (% of nonemployer firms)



1 *Percentages may not sum to 100 due to rounding.*
2 *At time of survey, September through October 2020.*

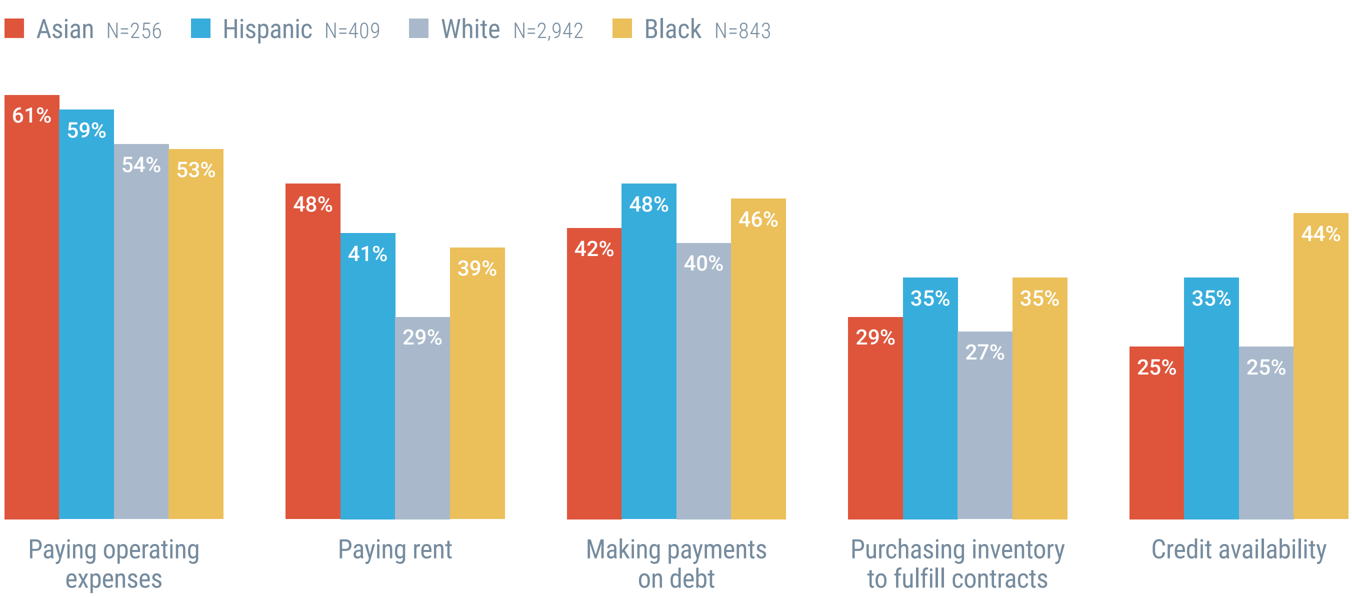
NONEMPLOYER FIRMS

Financial Challenges, Prior 12 Months

Nonemployer firms of color were more likely than white-owned firms to experience financial challenges in the 12 months prior to the survey.

SHARE OF FIRMS WITH FINANCIAL CHALLENGES, *Prior 12 Months*[1] (% of nonemployer firms)

TYPES OF FINANCIAL CHALLENGES, *Prior 12 Months*[1,2,3] (% of nonemployer firms)

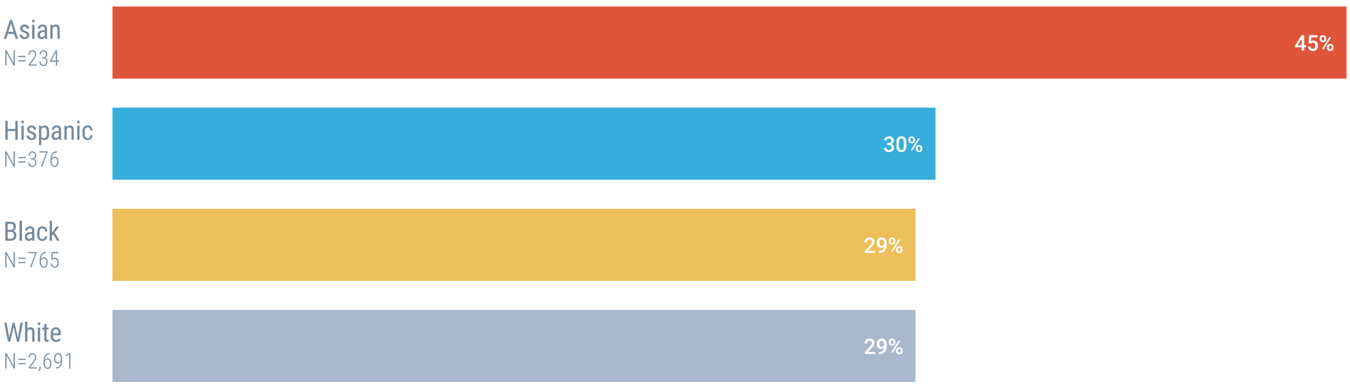


1 Approximately the second half of 2019 through the second half of 2020.
2 Respondents could select multiple options.
3 Select options shown. See Appendix for more detail.

NONEMPLOYER FIRMS
Pandemic-Related Emergency Funding Applications

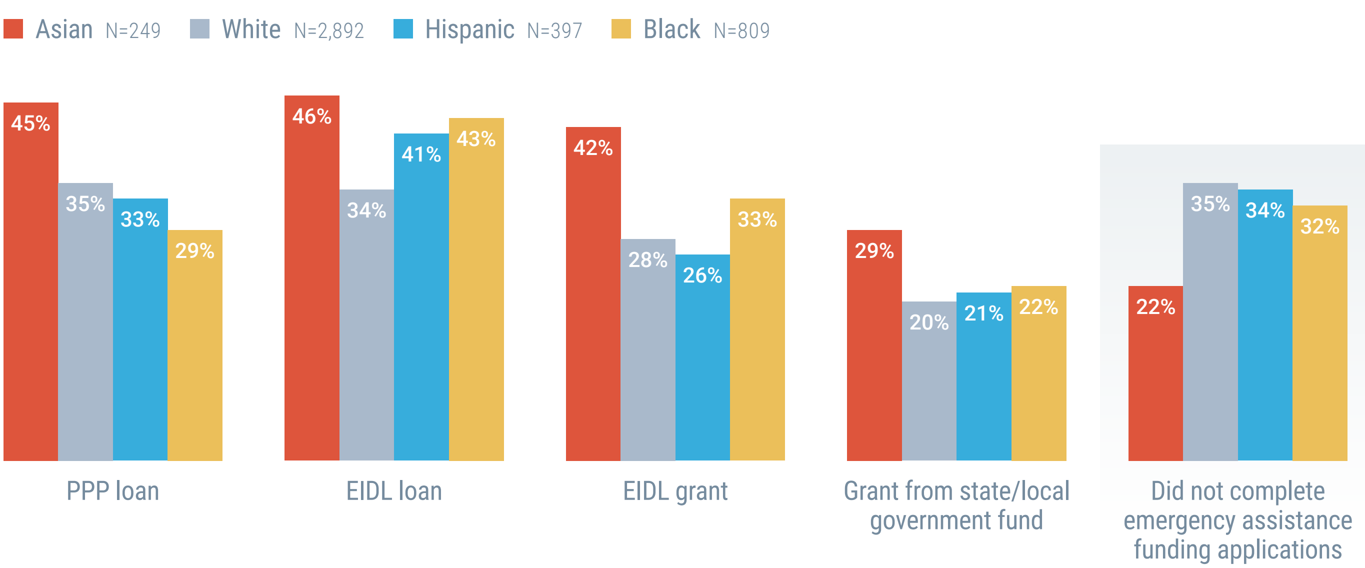
Approximately 3 in 10 nonemployer firm owners applied for enhanced unemployment insurance benefits; Asian firm owners most often applied.

FIRM OWNERS' APPLICATIONS FOR ENHANCED UNEMPLOYMENT INSURANCE BENEFITS[1] (% of nonemployer firms)



Asian-owned nonemployer firms had higher application rates than other nonemployer firms across the most common emergency assistance funds.

APPLICATION FOR EMERGENCY ASSISTANCE FUNDS[2,3,4,5] (% of nonemployer firms)



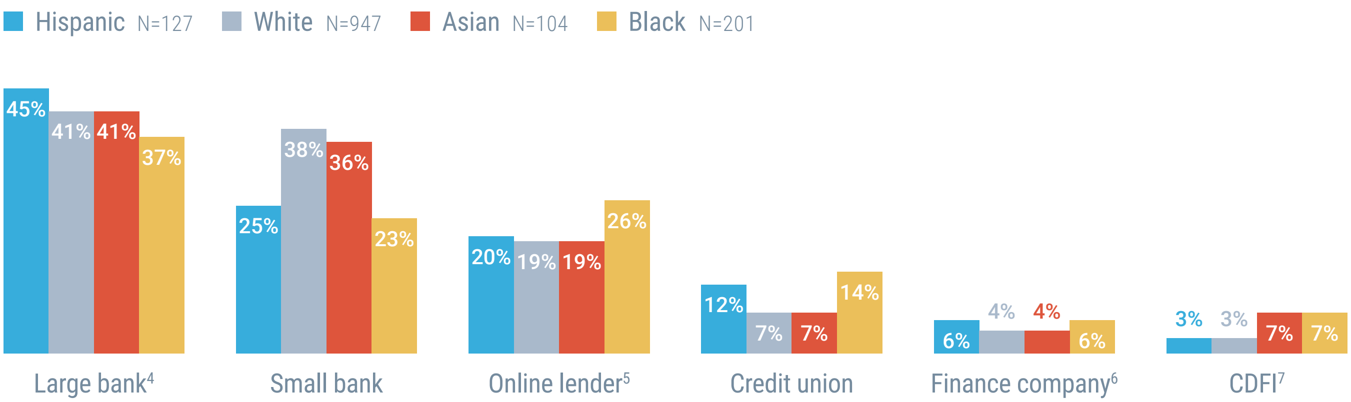
1 *The CARES Act gives states the option of extending unemployment compensation to independent contractors and other self-employed workers who are ordinarily ineligible for unemployment benefits.*
2 *The Paycheck Protection Program (PPP) and Economic Injury Disaster Loan (EIDL) are administered through the US Small Business Administration.*
3 *Respondents could select multiple options.*
4 *Select response options shown. See Appendix for more detail.*
5 *Excludes enhanced unemployment insurance benefits.*

NONEMPLOYER FIRMS

PPP Application Sources and Outcomes

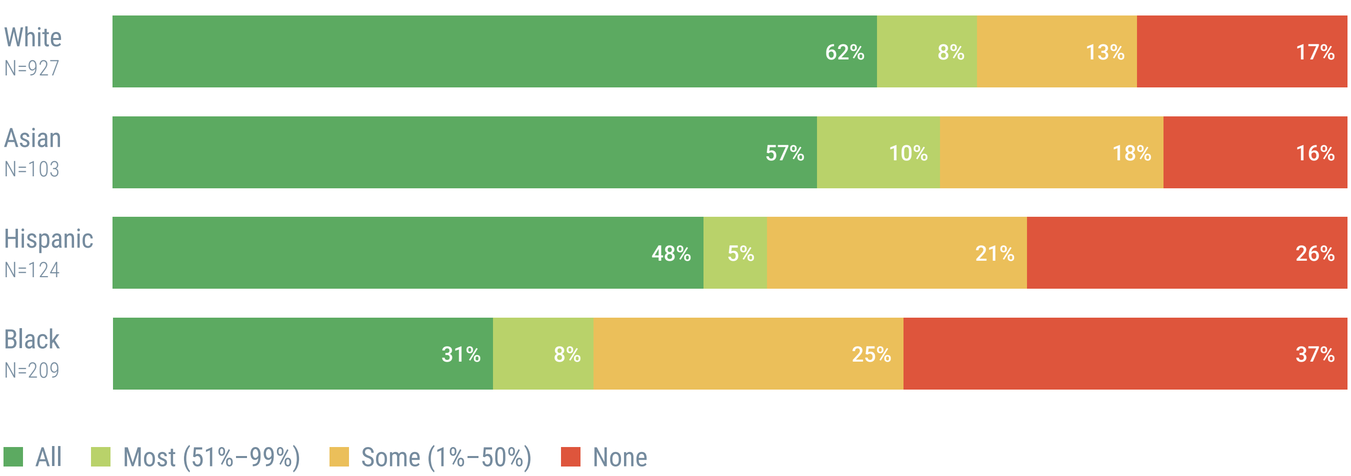
Black-owned nonemployer firms that applied for PPP loans were less likely than other firms to apply at banks and more often turned to online lenders.

PPP APPLICATIONS AT SOURCE[1,2,3] (% of nonemployer PPP applicants)



Among PPP applicants, white-owned nonemployer firms were twice as likely as Black-owned firms to receive all of the PPP funding they sought.

PPP FUNDING RECEIVED, *As Share of Amount Sought*[1,8] (% of nonemployer PPP applicants)

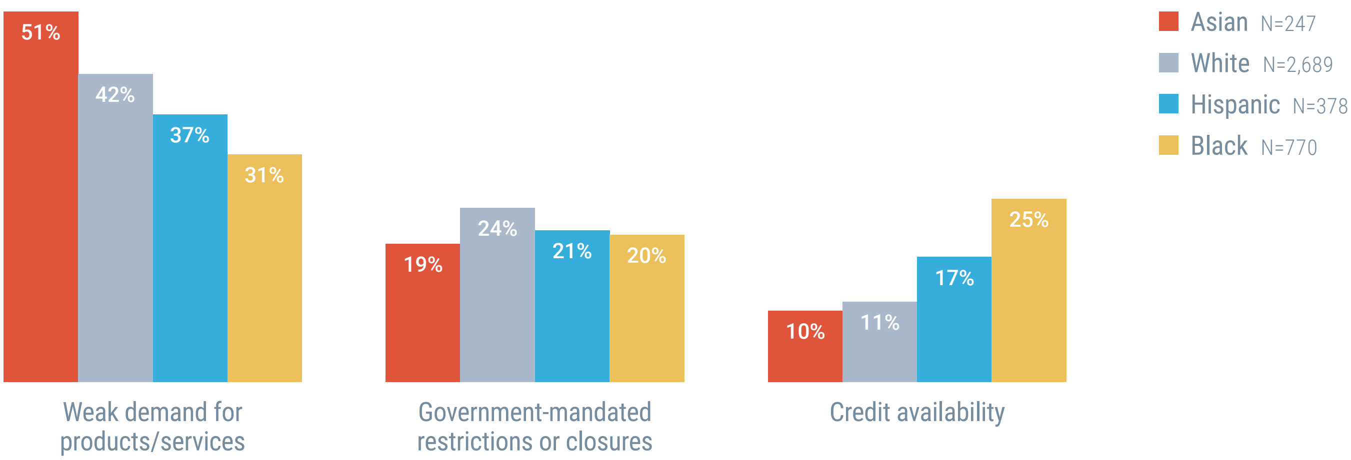


1 *The Paycheck Protection Program (PPP) is administered through the US Small Business Administration.*
2 *Respondents could select multiple options; respondents may have submitted more than one application.*
3 *Response option "other" not shown. See Appendix for more detail.*
4 *Respondents were provided a list of large banks (those with at least $10B in total deposits) operating in their state.*
5 *"Online lenders," also called fintech lenders, are nonbanks that lend online. Examples include: Lending Club, OnDeck, CAN Capital, Paypal Working Capital, Kabbage, etc.*
6 *"Finance company" includes nonbank lenders such as mortgage companies, equipment dealers, insurance companies, auto finance companies, etc.*
7 *Community development financial institutions (CDFIs) are financial institutions that provide credit and financial services to underserved markets and populations. CDFIs are certified by the CDFI Fund at the US Department of the Treasury.*
8 *Percentages may not sum to 100 due to rounding.*

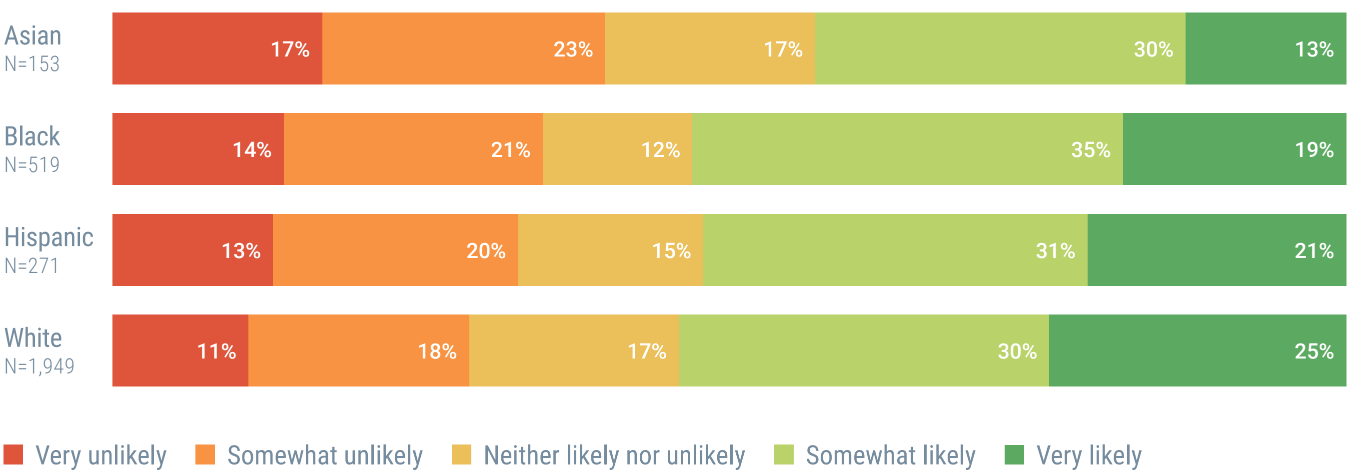
NONEMPLOYER FIRMS
Pandemic-Related Expected Challenges and Survival Expectations

Half of Asian-owned nonemployer firms expect weak demand for products and services will be their most significant pandemic-related challenge in the next 12 months, while a quarter of Black-owned firms cited credit availability as the most important expected challenge.

SINGLE MOST IMPORTANT CHALLENGE FIRMS EXPECT TO FACE AS A RESULT OF THE PANDEMIC, *Next 12 Months*[1,2,3] (% of nonemployers expecting one or more pandemic-related challenges)



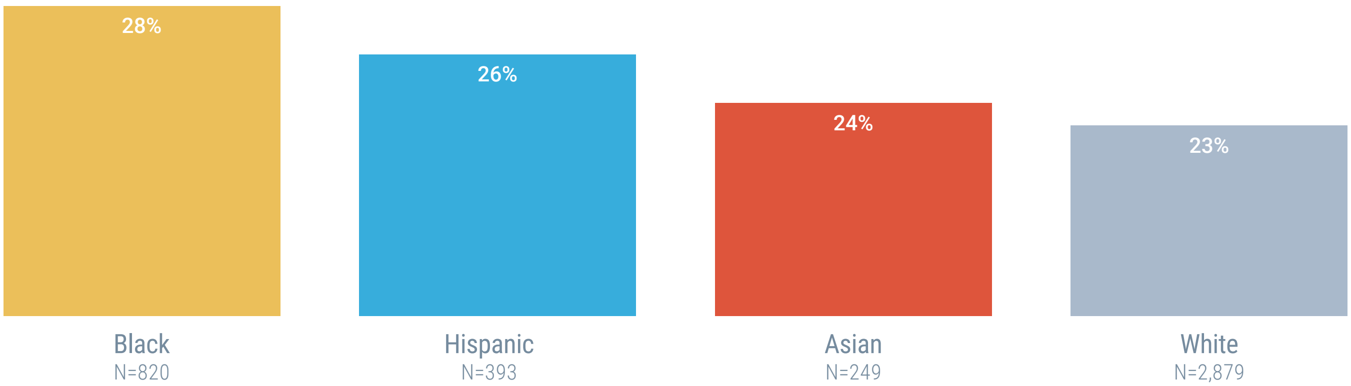
LIKELIHOOD FIRMS WILL SURVIVE WITHOUT ADDITIONAL GOVERNMENT ASSISTANCE UNTIL SALES RETURN TO "NORMAL" (I.E., 2019 LEVELS)[4,5]
(% of nonemployer firms for which sales had not yet returned to normal at time of survey)



1 *Next 12 months is approximately the second half of 2020 through the second half of 2021.*
2 *Respondents who identified more than one anticipated challenge were asked which challenge they expected would be most important. This chart includes these responses as well as responses for firms with only one anticipated challenge.*
3 *Percentages may not sum to 100 because only the three most important challenges are shown. See Appendix for more detail.*
4 *Percentages may not sum to 100 due to rounding.*
5 *Data on sales recovery and firm survival expectations were drawn from questions in the optional end-of-survey module (completed by approximately 80% of respondents). This subset of respondents is re-weighted to be reflective of the overall small firm population.*

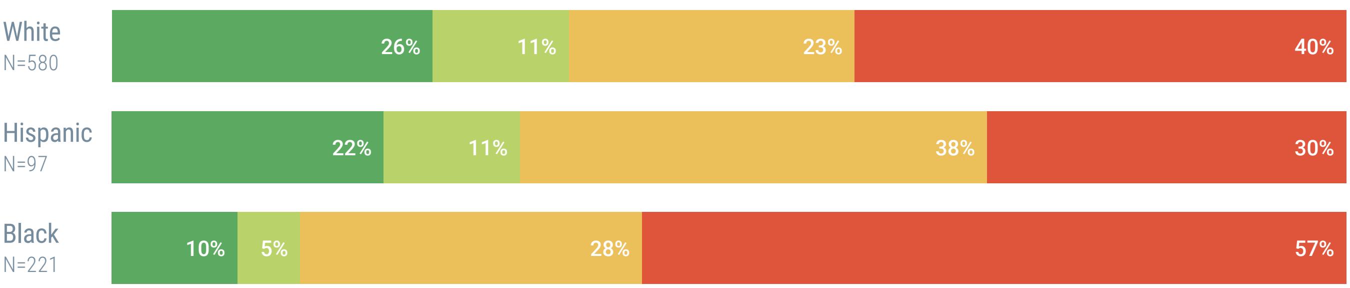
NONEMPLOYER FIRMS
Financing Demand and Outcomes

SHARE THAT APPLIED FOR FINANCING, *Prior 12 Months*[1,2] (% of nonemployer firms)
2020 application rate excludes PPP and other pandemic-related emergency funding applications.



Compared to other nonemployer firms that applied for financing, Black-owned firms were less likely to receive all of the financing they sought.

TOTAL FINANCING RECEIVED, *Prior 12 Months*[1,2,3] (% of nonemployer applicants)



Asian-owned firms not shown due to insufficient sample size.

All · Most (51%–99%) · Some (1%–50%) · None

1 *Prior 12 months is approximately the second half of 2019 through the second half of 2020.*
2 *Excludes emergency funding applications.*
3 *Percentages may not sum to 100 due to rounding.*