Critical Gap Between Credit Demand & Supply

Ingrid Gorman, Research & Insights Director
The Market Failure: Capital Gap to Main Street

8,000 DECLINES
REQUESTS FOR CREDIT
FROM BANKS
EACH DAY

$52 BILLION
CREDIT GAP
TO MAIN STREET

2.2 MILLION
SMALL BUSINESS
IN LOW WEALTH COMMUNITIES
STRUGGLE
Applicants unable to secure bank finance

Credit-ready

Could be credit-ready “But for” discrete challenge(s)

Longer-term intervention needed

30%

30%

40%
Black-Owned Business Owners Especially Affected by Credit Gap

- Low Starting Wealth, Fewer Assets
- Credit Scores
- Higher Demand
- Higher Denial Rates/Bias
- Un- & Under-banked
Black-Owned Business Owners
AEO Survey Insights

• More likely to say financial issues were extremely problematic in start-up phase

• Single biggest obstacle is “applying for a loan” (43%)

• Black business owners lack “runway” capital

• Only Black business owners in our study said they contacted an on-line lender (3%)
Market Failure Creates Opportunity

• For FinTech to fill the gap...

• Need
  • Technology-led solutions
  • And cross-sector collaboration
Solutions Must...
Meet Needs of All Players
WHO WE ARE

• National trade association for US microfinance & microbusiness

• **Mission**: create economic opportunity for under-served entrepreneurs

• 400+ members/partners

WHAT WE DO

ADVOCACY & ENGAGEMENT

RESEARCH & INSIGHTS

INNOVATION
AEO Innovation(s): Technology for Financial Inclusion

- **Project CUE**: Customer referral program for CDFIs and providers of “path to capital” products/services
- **DreamFund**: Liquidity Solutions for CDFI Lenders
- **TILT Forward Network**: CDFIs and non-profits committed to innovation and testing
Project CUE: Customer Referral Marketplace

Connecting

Referral solution for bank and non-bank lenders

Bank Referral Partners

Underserved

Qualified Leads for CDFIs & “Path to Capital” Service Providers

Community Lenders

Entrepreneurs

Capital Access for Small Businesses

Small Business Owners
Project CUE: Value Proposition

CDFI receivers get...

- Expanded reach @ low cost
- Customer leads
- Improved customer assessment
- Advanced reporting capabilities
- API integration options for efficiency

Business owners get...

- Opportunities
- Choices
- Guidance
DreamFund: Value Proposition

CDFIs get...
- Improved target market coverage via more tools / products
- Operating income
- Liquidity solutions to recycle capital

Investors get...
- Safety and security of SPV structure inside 501(c)3
- Options to target investment
- More efficient / effective use of scarce subsidy

Business owners get...
- More “yes”
- “Same product, lower price”
- Guidance
Smart Box Initiative

• Innovative Lending Platform Association
• AEO Collaboration
• 3 Largest Online Lenders
• First pricing disclosure model

empowering small businesses to more fully understand and assess their small business finance options
The Digital Divide

- Rural populations lag behind
  - 63% Broadband
  - 67% Smartphone
  - 43% Tablet
  - 70% Computer

- Income drives the divide
  - 84% of rural high-income homes have broadband

- African Americans less likely to have high speed broadband

- Parity with respect to mobile platforms, but behind broadband

- Parity is also reached for African Americans with 75k+ incomes

If Fintech is a Remedy to the Market Gap, More Lower Income Entrepreneurs Must Get Connected
Thank you