SMALL BUSINESS FINANCE FORUM

VIRTUAL EDITION
Economic Outlook for Small Businesses, Communities, and States

Moderated by:

John Holdsclaw IV
EVP, Strategic Initiatives
National Cooperative Bank
State Economic & Fiscal Outlook

Michael Leachman
Vice President for State Fiscal Policy
Center on Budget and Policy Priorities
Response to COVID-19 Driving Skyrocketing Unemployment

Closed due to CORONAVIRUS
COVID-19 State Budget Shortfalls Could Be Largest on Record

Total state budget shortfall in each fiscal year, in billions of 2020 dollars

<table>
<thead>
<tr>
<th>Recession</th>
<th>'02</th>
<th>'03</th>
<th>'04</th>
<th>'05</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>-$60</td>
<td>-$60</td>
<td>-$60</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-$105-$110</td>
<td></td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Recession</th>
<th>'09</th>
<th>'10</th>
<th>'11</th>
<th>'12</th>
<th>'13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Great</td>
<td>-$130</td>
<td>-$150</td>
<td>-$120</td>
<td>-$60</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-$230</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Recession</th>
<th>'20</th>
<th>'21</th>
<th>'22</th>
</tr>
</thead>
<tbody>
<tr>
<td>COVID-19</td>
<td>-$120</td>
<td>-$180</td>
<td>-$315</td>
</tr>
</tbody>
</table>

* Estimated based on CBPP calculations
Source: Pre 2014: CBPP survey; 2020 and following: CBPP calculations
Federal aid to date
Federal Aid to Date And Rainy Day Funds Won’t Be Enough

- Remaining Shortfalls
- Federal Fiscal Aid to Date
- State Rainy Day Funds

Total: $440 B
- $100 B
- $75 B
- Remaining Shortfalls

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG
States Relied Most on Spending Cuts During the Great Recession
One-Third of States Unprepared for Moderate Recession

Gap between current reserves and Moody’s estimate of the “fiscal shock” from a moderate recession

More than 5% below necessary reserves
0-5% below necessary reserves
At or above necessary reserves

Note: Current reserves are measured as a share of estimated 2019 revenues. States generally should aim for reserves of at least 15 percent of their budgets.

Source: Moody’s Analytics, “Stress-Testing States 2019”
In 42 States, No More Than 40% of Jobless Workers Get Unemployment Benefits

Source: U.S. Department of Labor, data for fourth quarter of 2019
States Can Do More to Make Medicaid Accessible

Number of recommended policies* adopted to improve accessibility

*The recommended policies are: (1) expanding eligibility to cover adults up to 138 percent of the poverty line, (2) streamlining eligibility and enrollment systems, (3) adopting automated renewals, (4) adopting 12-month continuous eligibility for children, (5) rejecting work requirements, and (6) rejecting premiums and minimizing cost sharing.

Source: The Henry J. Kaiser Family Foundation
Students Funding Larger Share of Higher Education After Recessions

Tuition as a percent of total educational revenue, 1988-2018

Source: CBPP analysis using SHEEO State Higher Education Finance Report
HEROES Act
Q&A

Michael Leachman
Vice President for State Fiscal Policy

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Small Business Financial Outcomes

Chi Mac
Small Business Research Lead
JPMorgan Chase Institute
JPMorgan Chase Institute: Expert insights for the public good

INSTITUTE RESEARCH THEMES

- HOUSEHOLD INCOME & SPENDING
- HOUSEHOLD DEBT
- LABOR MARKETS
- CITIES & LOCAL COMMUNITIES
- SMALL BUSINESS
- FINANCIAL MARKETS

INSTITUTE DATA

THE JPMORGAN CHASE INSTITUTE LEVERAGES DE-IDENTIFIED DATA FROM:

- $2.5 TRILLION BALANCE SHEET
- 2.5 MILLION SMALL BUSINESSES
- 70+ MILLION RETAIL CUSTOMERS
- 44 THOUSAND INSTITUTIONAL INVESTORS

www.jpmorganchaseinstitute.com
Research focus on small business cash flows
Small business financial health before COVID-19

- Small business sample
- Financial measures and outcomes
  - Revenues
  - Profit margins
  - Cash liquidity
  - Exit rates

Source: US Census Bureau
Revenues during initial years

- Women-owned firms are 34% smaller in their first year.
- Slower revenue growth for women-owned firms.

![Revenue Comparison Chart]

Note: “All firms in cohort” includes businesses with multiple owners.

Source: JPMorgan Chase Institute
Profit margins vary by industry

Median profit margin by industry in metro areas

- High-Tech Services: 29%
- Health Care Services: 26%
- Other Professional Services: 21%
- Real Estate: 17%
- Wholesalers: 14%
- Personal Services: 14%
- High-Tech Manufacturing: 14%
- Repair & Maintenance: 12%
- Metal & Machinery: 12%
- Construction: 12%
- Retail: 11%
- Restaurants: 9%

Source: JPMorgan Chase Institute
Lower profit margins in majority Black and Hispanic communities

Median profit margin by ZIP code racial composition

- Majority White: 5.4% (Under 5%), 24.2% (5-10%), 31.9% (10-15%), 37.8% (15-20%)
- Majority Hispanic: 6.5% (Under 5%), 46.7% (5-10%), 32.2% (10-15%), 8.2% (15-20%)
- Majority Black: 11.1% (Under 5%), 58.7% (5-10%), 10.2% (10-15%), 10.6% (15-20%)
- Majority Asian: 6.1% (Under 5%), 20.4% (5-10%), 34.7% (10-15%), 38.8% (15-20%)
- All Other Communities: 1.6% (Under 5%), 19.1% (5-10%), 36.7% (10-15%), 29.7% (15-20%), 13.0% (Over 20%)

Source: Immigration Characteristics, US Census Bureau
Typical small businesses have 15 cash buffer days

Distribution of cash buffer days in 25 metro areas

Median cash buffer days: 15

50% of small businesses had fewer than 15 cash buffer days

By city
• San Francisco: 18
• Detroit: 14
• Atlanta: 11

Note: Profit margin and cash buffer days measured from 2013 to 2017 in the cross-sectional sample.

Source: JPMorgan Chase Institute
In majority Black or Hispanic communities, most small businesses had fewer than 21 cash buffer days.
Firm life expectancy varies by industry

Median small business life expectancy

- Real Estate: 9.0 years
- Health Care Services: 8.8 years
- High-Tech Manufacturing: 6.9 years
- Other Professional Services: 6.5 years
- Metal & Machinery: 6.4 years
- High-Tech Services: 6.2 years
- All Firms: 5.3 years
- Construction: 5.1 years
- Personal Services: 4.9 years
- Wholesalers: 4.7 years
- Repair & Maintenance: 4.6 years
- Retail: 4.0 years
- Restaurants: 3.7 years

Note: We estimate median small business life expectancy by determining an annualized exit rate from Year 1 to Year 3 and assuming constant exit rates over time.

Source: Michigan State University
Small businesses in high home value communities have higher profits and more cash liquidity

<table>
<thead>
<tr>
<th>Home Value</th>
<th>Median Profit Margins</th>
<th>Median Cash Buffer Days</th>
<th>Exit Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 75% (Low Home Value)</td>
<td>9.7%</td>
<td>11.0</td>
<td>8.5%</td>
</tr>
<tr>
<td>75-100%</td>
<td>13.7%</td>
<td>13.0</td>
<td>8.3%</td>
</tr>
<tr>
<td>100-133%</td>
<td>15.8%</td>
<td>14.6</td>
<td>8.3%</td>
</tr>
<tr>
<td>More than 133% (High Home Value)</td>
<td>18.4%</td>
<td>17.8</td>
<td>8.2%</td>
</tr>
</tbody>
</table>

Source: JPMorgan Chase Institute, US Census Bureau.
Q&A

Chi Mac
Small Business Research Lead
JPMorgan Chase Institute
COVID-19’s Threat to Economic Opportunity in the Deep South

Diane Standaert
Senior Vice President of Policy and Advocacy
Hope Enterprise Corporation
Liquid Asset Poverty Rates Highest, Gaps Wider Among Deep South Households of Color

*Liquid Asset Poverty rates for Latino households in Alabama are not available.
Deep South Gender Wage Gap Wider than Country Largest among Black and Latina Women

<table>
<thead>
<tr>
<th></th>
<th>White Men</th>
<th>White Women</th>
<th>Black Women</th>
<th>Latina Women</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Median Earnings</td>
<td>Median Earnings</td>
<td>Wage Gap</td>
<td>Median Earnings</td>
</tr>
<tr>
<td>Alabama</td>
<td>$51,392</td>
<td>$38,893</td>
<td>$0.76</td>
<td>$29,997</td>
</tr>
<tr>
<td>Arkansas</td>
<td>$46,594</td>
<td>$35,903</td>
<td>$0.77</td>
<td>$30,698</td>
</tr>
<tr>
<td>Louisiana</td>
<td>$56,041</td>
<td>$40,177</td>
<td>$0.72</td>
<td>$27,254</td>
</tr>
<tr>
<td>Mississippi</td>
<td>$49,459</td>
<td>$36,862</td>
<td>$0.75</td>
<td>$28,186</td>
</tr>
<tr>
<td>Tennessee</td>
<td>$47,060</td>
<td>$37,674</td>
<td>$0.80</td>
<td>$33,325</td>
</tr>
<tr>
<td>United States</td>
<td>$63,640</td>
<td>$42,563</td>
<td>$0.79</td>
<td>$35,963</td>
</tr>
</tbody>
</table>

Existing Debt Loads Further Strain Economic Insecurity and Shorten Reach of Relief Efforts

Since the beginning of the COVID-19 crisis (March 11th) HOPE members paid $108,443 in payday loan payments

The vast majority of these members had been in stuck in payday loans since the beginning of the year
Half of Deep South Counties have no ICU beds or No Hospital
40% are Persistent Poverty Counties

COVID-19 Unemployment Claims Far Eclipse Great Recession Job Losses

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama</td>
<td>152,800</td>
<td>289,694</td>
<td>525,618</td>
</tr>
<tr>
<td>Arkansas</td>
<td>59,400</td>
<td>133,752</td>
<td>226,312</td>
</tr>
<tr>
<td>Louisiana</td>
<td>70,100</td>
<td>350,504</td>
<td>651,640</td>
</tr>
<tr>
<td>Mississippi</td>
<td>77,400</td>
<td>129,546</td>
<td>293,906</td>
</tr>
<tr>
<td>Tennessee</td>
<td>217,400</td>
<td>317,535</td>
<td>543,412</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>577,100</strong></td>
<td><strong>1,221,031</strong></td>
<td><strong>2,240,888</strong></td>
</tr>
</tbody>
</table>

Recovery from Great Recession Slower for Deep South states than U.S.

Nonfarm Employment by State 2007-2019

U.S. recovered May 2014

Crisis for Businesses Owned by People of Color

- Black-owned businesses create nearly 4 million jobs and generate $150 billion in revenue

- Minority-owned businesses largely locked out of $600 billion federal relief program for small businesses

- The number of Black business owners has fallen 40% as a result of the pandemic

HOPE’s Small Business Administration Paycheck Protection Program Lending Fills Gap

<table>
<thead>
<tr>
<th>Loan Origination by Geography &amp; Size</th>
<th>Count</th>
<th>Percent of HOPE Total</th>
<th>Amount</th>
<th>Median Loan Size</th>
<th>Average Loan Size</th>
<th>Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Persistent Poverty County</td>
<td>447</td>
<td>31%</td>
<td>$25,680,352</td>
<td>$10,833</td>
<td>$57,450</td>
<td>3,684</td>
</tr>
<tr>
<td>Rural County</td>
<td>108</td>
<td>7%</td>
<td>$8,164,244</td>
<td>$9,953</td>
<td>$75,595</td>
<td>1,163</td>
</tr>
<tr>
<td>County Population &gt; 50% People of Color</td>
<td>809</td>
<td>56%</td>
<td>$46,607,464</td>
<td>$11,800</td>
<td>$57,611</td>
<td>6,071</td>
</tr>
<tr>
<td>Under $100k</td>
<td>1,359</td>
<td>94%</td>
<td>$21,115,906</td>
<td>$10,117</td>
<td>$15,538</td>
<td>4,327</td>
</tr>
<tr>
<td>Under $50k</td>
<td>1,282</td>
<td>89%</td>
<td>$15,970,530</td>
<td>$9,413</td>
<td>$12,458</td>
<td>3,478</td>
</tr>
<tr>
<td>Total</td>
<td>1,448</td>
<td>-</td>
<td>$68,414,484</td>
<td>$11,200</td>
<td>$47,248</td>
<td>9,691</td>
</tr>
</tbody>
</table>

As of May 30, CDFIs collectively deployed over $7.1 billion dollars, with the average loan amount being $76,064.
### White-Led CDFIs have an Average Asset Size 2.5 Times Larger than Minority Led Counterparts

<table>
<thead>
<tr>
<th>CDFI Type</th>
<th>Total Assets</th>
<th>Average Asset Size</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FY2014</td>
<td>FY2017</td>
</tr>
<tr>
<td>Minority-Led</td>
<td>$5,003,778,902</td>
<td>$5,686,291,895</td>
</tr>
<tr>
<td>White-Led</td>
<td>$13,364,402,895</td>
<td>$35,139,557,135</td>
</tr>
<tr>
<td>Owner Type Missing</td>
<td>$38,138,704</td>
<td>$6,184,219,412</td>
</tr>
<tr>
<td>All</td>
<td>$18,406,320,501</td>
<td>$47,010,068,442</td>
</tr>
</tbody>
</table>


**Brighter Futures Begin with HOPE.**  
Alabama  Arkansas  Louisiana  Mississippi  Tennessee
Following Great Recession, Minority-Owned Credit Unions Disappearing in Deep South

Number of MDI Credit Unions in Deep South States

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of MDI Credit Unions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>115</td>
</tr>
<tr>
<td>2018</td>
<td>75</td>
</tr>
</tbody>
</table>

Assets Held by MDI Credit Unions in Deep South States

<table>
<thead>
<tr>
<th>Year</th>
<th>Billions of Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$3.0</td>
</tr>
<tr>
<td>2018</td>
<td>$1.5</td>
</tr>
</tbody>
</table>

Brighter Futures Begin with HOPE. Alabama Arkansas Louisiana Mississippi Tennessee
Growing Coalition Urges SBA to “Get Serious” and Make the Paycheck Protection Program Work for Businesses of Color, Mom and Pops

NAACP, UnidosUS, Opportunity Finance Network, Alliance of African American CDFI CEOs (AAA), HOPE and a dozen new advocates join coalition to call for SBA to set aside $10B in funding for underserved businesses.
Relief Efforts Must Support Equitable Recovery

Federal Level:
• $1 billion emergency appropriation for to the US Treasury CDFI Fund.
• Streamline forgiveness of federal PPP loans, particularly for small businesses
• Broad universal debt forgiveness for all federal student loan borrowers
• Protect garnishment of stimulus payments by private debt collectors
• Aid to state and local governments should suspend the collection of debts owed or assigned to them, including medical debt and court fines and fees.
• Increased protections renters and homeowners, along with adequate rental assistance and fair housing enforcement.
• Enact a rate cap of 36%, not pre-emptive of state laws with lower caps, for high-cost payday, car title, and installment loans.
• Additional direct cash support to people, including to people regardless of immigration status.

State Level:
• State CARES Act money should support equitable recovery
  • Small business relief should be structured as grants and include a set-aside for minority-owned businesses, such as Mississippi’s Back to Business Grant Program
  • Local government aid should not be reimbursement only
  • Funding for rental assistance
  • Support for HBCU
• Protections for housing stability, predatory lending, and debt-related abuses.
Q&A

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