

**REPORT HIGHLIGHTS POTENTIAL INFLECTION POINT FOR EXPANDING CREDIT ACCESS  
AMONG MINORITY ENTREPRENEURS AND OTHER UNDERSERVED BUSINESSES**

WASHINGTON, D.C., June 13, 2024 — A new report by FinRegLab underscores the importance of continuing technology and data improvements to expand credit access among smaller, younger businesses. [\*From Crisis to Opportunity: Financing for Underserved Small Businesses Since COVID-19\*](#) analyzes recent lending trends, including initiatives focusing on underserved businesses, lender technology adoption, and the effect of high inflation and interest rates on both loan demand and supply.

As the economy improves, lenders will face critical decisions going forward about how much to adjust their standards and keep investing in systems improvements to meet more small businesses' capital needs. Their choices could have particular effects on the record number of small businesses formed since the pandemic, especially on minority and women entrepreneurs.

“Improving access to credit is critical to helping recent startups survive and grow, which will increase their impacts on wealth building, local communities, and the broader US economy,” said FinRegLab CEO Melissa Koide. “Fully leveraging the potential of data and technology improvements to expand access to responsible credit will require sustained action and cooperation among banks, mission-based lenders, fintechs, and other stakeholders.”

Small businesses have contributed two-thirds of the nation’s net new jobs since 1995. However, high failure rates and data limitations increase the risks of lending to younger, smaller businesses, and small loan sizes make it more difficult for lenders to cover their costs. After the 2008 financial crisis, many banks stopped making small business loans to companies that did not meet certain size and age thresholds, making it more difficult for startups and sole proprietors to access capital. Businesses owned by minority entrepreneurs, recent immigrants, and women are particularly affected by these credit constraints.

The report lays the foundation for a new FinRegLab research project that will analyze the use of bank account data and other non-traditional information sources to make small business underwriting models more accurate and inclusive. The next report in the series will highlight the benefits, challenges, and lessons learned about adopting data and technology by mission-based lenders, such as community development financial institutions (CDFIs) and minority depository institutions (MDIs).

**Small Business Resurgence**

Although small business formation and the share of US gross domestic product generated by small businesses declined after 2008, available data suggest that formation has reached record levels since the pandemic shutdown, including the highest levels of startups by entrepreneurs of color and women ever reported.

The report traces initiatives to expand lending to smaller, younger companies and historically underserved entrepreneurs in the aftermath of initial challenges with the Paycheck Protection Program and racial justice movements in 2020. Interest and investments in better technology platforms and more inclusive data sources for small business lending have also increased over the past four years. However, adoption levels remain uneven, particularly among banks and mission-based lenders.

Inflation and other economic conditions have taken a toll, however, both by dampening demand for loans and prompting lenders to tighten their criteria. Loan default rates, small business closures, and bankruptcies have increased relative to early in the pandemic, though they remain below 2008 levels, and small business sentiment has remained largely optimistic.

As business owners and lenders watch for indicators of economic improvement, the report highlights important decisions ahead about the use of data and technology to make it easier for small business applicants to access credit. Using online platforms and data from bank accounts and other digital sources can potentially accelerate underwriting and help lenders gain more insights into businesses' operations, particularly where owners have limited or negative traditional credit history or may struggle to compile traditional financial statements.

### **About the Project**

Other workstreams in the research project include studying pilot programs by several mission-based lenders that are using data and technology to expand the scope of their small business lending activities and working with researchers at New York University and Columbia University to study the effects of using cash-flow information on the predictiveness and inclusiveness of loan underwriting.

Support for the project is being provided by the US Department of Commerce Minority Business Development Agency and Visa. Plaid will provide free account connectivity services to participating mission-based lenders to allow loan applicants to authorize their account data to be accessed for underwriting. The project builds on previous FinRegLab research focusing on [the use of cash-flow data](#) by both consumer and small business lenders.

### **About FinRegLab**

FinRegLab is an independent, nonprofit research organization that conducts research and experiments with new technologies and data to drive the financial sector toward a responsible and inclusive marketplace. We also facilitate discourse across the financial ecosystem to inform public policy and market practices.

For media and other inquiries about this research, email [contact@finreglab.org](mailto:contact@finreglab.org). To receive periodic updates on this research, please subscribe to FinRegLab's newsletter [here](#).

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