The SUPPORT CENTER

Your Partner in Small Business Growth

Creating economic opportunity for all people.

The Economic Impact of The Support Center's Small Business Revolving Loan Fund

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Executive Summary

Small businesses drive local economies and make up the vast majority of businesses (87 percent) in the state, but unfortunately many face significant barriers in accessing capital. Since the Great Recession, the credit market for small businesses has become increasingly challenging. In 2010, The Support Center (TSC) launched its Small Business Revolving Loan Fund (SBRLF) in order to meet this need by providing direct small business loans in underserved communities in North Carolina. Using economic multiplier analysis, this brief shows that the SBRLF has had a significant economic impact in the three years since it was launched.

Since its inception, the SBRLF has grown to $9.6 million in lending dollars, has financed a total of 105 businesses in counties across the state, and has helped to create or retain 363 jobs in a range of industries. The SBRLF serves both start-up and existing businesses that are underserved by the mainstream financial market, but nevertheless are well-qualified and viable businesses. In fact, many of the small businesses that have obtained SBRLF loans have been turned away from traditional banks, even after having successfully obtained bank loans in previous years.

What is a CDFI?

Community Development Financial Institutions are designated by the U.S. Department of Treasury Community Development Financial Institutions Fund, established to promote revitalization and community development in underserved communities. Their mission is to expand access to capital and financial services to low-income urban and rural communities. A range of institutions can be designated as CDFIs, including community development credit unions, community development banks, community development loan funds, community development venture capital funds, microenterprise funds, and community development corporations. There are currently 15 CDFIs in North Carolina.

Ultimately, TSC's goal is to foster economic development in communities by expanding access to financial resources. These investments made in small businesses have ripple effects that impact the state's economy. Businesses supported by TSC employ workers and procure goods and services. Moreover, these results help to support other businesses and generate economic activity—new jobs and income for workers—in the state. The value of this exchange and the ripple effects can be measured by deriving an 'economic multiplier.' This brief examines the economic multiplier of TSC's small business lending program, and illustrates that expanding access to capital has a significant positive impact on North Carolina's economy.

Key Findings

Using input-output analysis, which models a final spending change in the local economy that would not have otherwise occurred, we can determine the economic multiplier for TSC's lending program. The total impact is the sum of direct, indirect, and induced effects. Between Fiscal Years 2012 and 2013, TSC invested in 69 small businesses, totaling $6.2 million, in 34 counties across the state. Modeling of TSC's lending activities shows that our borrowers have generated important economic activity that would otherwise not have happened without TSC's investment:

- The Support Center's $3.6 million in "job retention loans" saved a total of 251 jobs that would otherwise have been lost and protected the state's workers from losing almost $2.5 million in income.
- The Support Center's $2.6 million in "job creation loans" generated a total of 156 jobs that would have otherwise not existed in North Carolina and generated $1.9 million in income for the state's workers.
- For jobs directly created by loans to recipients of "job creation loans," the ripple effects of this investment will generate another 1.14 jobs across the state's economy.

Small Businesses in North Carolina

In North Carolina, as in the nation, small businesses drive the economies of many communities. In 2010, there were nearly 169,000 employer firms in the state, of which, 147,400 or 87.3 percent had between 1 and 19 employees and accounted for 18.4 percent of employment. At a time when unemployment remains persistently high (7.4 percent in the state, compared to 6.7 percent nationally) job creation is vital, yet it remains slow.[1] Very small businesses in North Carolina have consistently seen job growth since the start of the Great Recession. In fact, in 2010, small firms with less than 5 employees created 11,870 jobs, while firms of all other sizes saw job losses.[2]

Figure 1. Net Job Change by Firm Size in NC, 2007-2010 (Nonfarm)

Year	Total Net New Jobs	Employment Size of Firm					
		1-4	5-9	10-19	20-99	100-499	500+
2010	-67,041	11,870	-2,577	-5,904	-22,893	-6,641	-40,896
2009	-213,260	1,679	-16,366	-22,146	-55,229	-45,605	-75,593
2008	27,144	20,054	-75	-3,140	-56	6,641	3,720
2007	58,107	27,414	5,542	1,205	6,744	-7,663	24,865

Source: Small Business Administration. Office of Advocacy. 2012 Small Business Profiles for States and Territories.

Measuring the Impact of TSC's Lending

The businesses that TSC has funded through our Small Business Revolving Loan Fund have certainly contributed to this job growth in the state economy. Many of these businesses would not have been funded if it had not been for TSC's loan program. The investment made in these businesses allows them to expand, hire workers, and ultimately generate economic activity in their communities and in the state as a whole.

Using input-output analysis, which models a final spending change in the local economy that would not have otherwise occurred, we can determine the economic multiplier for TSC's lending program. This allows us to measure the cumulative impact of the ripple effects that TSC's loans have had in North Carolina (for a more detailed explanation, see the "Methodology" section). The total ripple effect is made up of direct, indirect, and induced effects. Direct effects are a result of the investment that TSC makes in small businesses—the purchases and job creation or retention that is a direct result of our loan to a small business.

Indirect effects include impacts on all local industries resulting from this initial investment. These are the expenditures that are made downstream, as other businesses are impacted by the spending and hiring of the businesses that received TSC loans. They are successive rounds of inter-industry purchasing all along the supply chain. It is important to note, however, that the input-output analysis does not assume that all of the dollars are spent locally, as there is some degree of "leakage" that occurs, meaning that some of the purchasing will be outside of the state. The analysis uses certain assumptions for each industry to account for this. Finally, induced effects represent the changes in household spending attributable to income changes tied to both the direct and indirect effects. The total impact represents the sum of these three separate effects.

[1] Bureau of Labor Statistics. Unemployment Rate for States (November 2013) and National Unemployment Rate (December 2013).
[2] Small Business Administration. North Carolina State Profile. February 2013. http://www.sba.gov/sites/default/files/nc12.pdf

Between Fiscal Years 2012 and 2013, TSC invested in 69 small businesses, totaling $6.2 million, in 34 counties across the state.[3] The loans ranged in size from $6,000 to $425,000 and funded businesses in a wide variety of industries, ranging from farms and printers to restaurants and construction firms. The loans contributed to significant reinvestment within recipient businesses. The direct effects of these loans can be segmented into two types:

1. Loans that saved jobs. This includes $3.6 million in lending that allowed businesses to save 225 existing jobs and retain employees who would have otherwise been laid off.
2. Loans that created jobs. This includes $2.6 million in lending that allowed businesses to create 137 new jobs that would not have otherwise existed at these firms.

As seen in the following figures, which account for the direct, indirect, and induced effects, modeling of TSC's lending activities shows that our borrowers have generated important economic activity that would otherwise not have happened without TSC's investment:

- The Support Center's $3.6 million in "job retention loans" saved a total of 251 jobs that would otherwise have been lost and protected the state's workers from losing almost $2.5 million in income.
- The Support Center's $2.6 million in "job creation loans" generated a total of 156 jobs that would have otherwise not existed in North Carolina and generated $1.9 million in income for the state's workers.
- For jobs directly created by loans to recipients of "job creation loans," the ripple effects of this investment will generate another 1.14 jobs across the state's economy.

Figure 2. Economic Impact of TSC's $3.6 Million in Loans for Saving Jobs

Impact Type	Annual Average		Total for Both Years	
	Employment	Labor Income	Employment	Labor Income
Direct Effect	112.3	$661,691	224.6	$1,323,382
Indirect Effect	4.6	$217,015	9.2	$434,030
Induced Effect	8.5	$357,715	17.0	$715,430
Total Effect	125.4	$1,236,421	250.8	$2,474,842

Figure 3. Economic Impact of TSC's $2.6 Million in Loans for Creating Jobs

Impact Type	Annual Average		Total for Both Years	
	Employment	Labor Income	Employment	Labor Income
Direct Effect	68.3	$522,569	136.6	$1,045,138
Indirect Effect	3.4	$154,967	6.8	$309,934
Induced Effect	6.5	$272,022	13.0	$544,044
Total Effect	78.2	$949,558	156.4	$1,899,116

In regard to both income and jobs, the small businesses funded by TSC have had a positive impact. Together, the jobs retained and jobs created have helped preserve and generate much-needed income for our state's workers. Additionally, for every job created by TSC's borrowers, another 1.14 jobs are created in the economy that would otherwise not have existed. Every dollar of TSC's investment in job retention loans has resulted in almost 70 cents of income for workers, and every dollar of TSC's investment in job creation loans has generated

[3] Total loan amount of $6.2 million is as of September 6, 2013. Because the IMPLAN software models single-year impacts, the total has been divided into two years, FY2012 and FY2013 for purposes of this analysis. Each year has been modeled separately to produce the total impact.

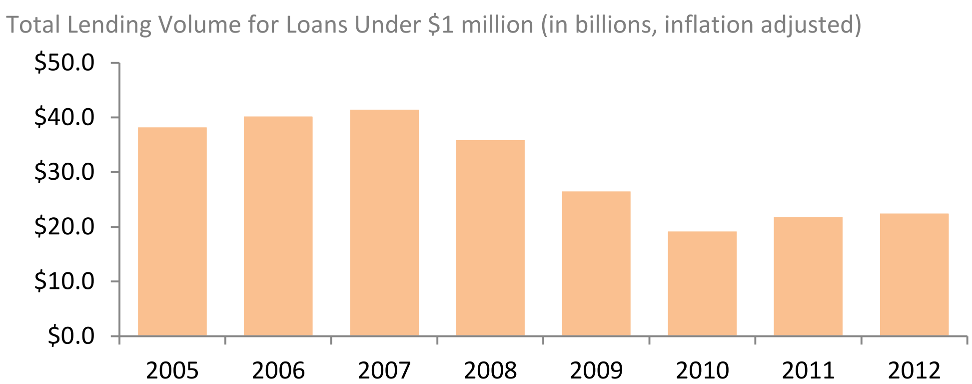
73 cents in income for workers. These data show just how important it is to support small businesses, particularly as the economic recovery has been slow or nonexistent in many parts of the state.

Small Business Access to Capital

Despite the clear impacts that small businesses have in the state, many are unable to access the capital they need to start up and grow in this tightened credit market. Large traditional banks have pulled back their lending to small businesses. Looking at loans originated at amounts less than $1 million, which is one measure of small business lending, shows that current lending is at a fraction of the pre-recession volume. In the fourth quarter of 2012, loans under $1 million were only 78.4 percent of loans in the second quarter of 2007, and the number of loans decreased by 344,000 since then.[4]

After the Great Recession, banks significantly tightened their lending standards. At the same time, many small business owners took a major financial hit during the recession. This led to a catch-22, in which many small business owners, faced with mounting financial difficulties, became even less able to meet the new lending criteria and access capital that they needed. However, it is important to note that the trend of decreased small business lending by banks began long before the recent recession. As the Federal Reserve Bank of Cleveland has pointed out, bank lending, in amounts less than $1 million, has been declining steadily since 1998. This is true in North Carolina as well; since 2005, bank lending to small businesses has decreased by 41 percent.

Figure 4. Small Business Lending by Large Banks in NC, 2005-2012



Source: Federal Financial Institutions Examination Council. CRA Aggregate Reports. 2005-2012.

In the context of a tightening capital market, small business owners have turned to alternative funding sources, many of which are less stable and less safe than a traditional business loan. In recent years, more business owners are using their own personal resources—personal savings, family resources, etc.—as a means to grow their businesses. Also, the use of credit cards has increased among small business owners. The Small Business Administration reports that about 10 percent of financing for small businesses comes from personal and business credit cards, and that the demand for credit cards increased between 2011 and 2012.[5] A survey by the National Small Business Association (NSBA) showed that credit cards were the second most prominent type of financing reported by surveyed businesses, after a revolving line of credit from a bank. In addition, 44 percent

[4] Wiersch, Ann Marie and Scott Shane. "Why Small Business Lending Isn't What it Used to Be." Federal Reserve Bank of Cleveland. Economic Commentary, August 14, 2013. http://www.clevelandfed.org/research/commentary/2013/2013-10.cfm

[5] Small Business Administration. Credit Card Financing and Small Businesses. June 2012. http://www.sba.gov/sites/default/files/Credit-Card-Financing.pdf

surveyed said that credit card terms had gotten worse in the previous year. The average interest rate for credit cards was 15.6 percent, with 22 percent reporting rates of 20 percent or more.[6]

Recently, banks have started to re-enter the small business lending market and, according to some indices, loan volumes have reached the highest levels since before the recession.[7] Still, barriers to accessing capital persist and even credit-worthy entrepreneurs face difficulty in obtaining loans from banks. Numerous surveys have shown that access to capital remains a top concern among small business owners. Forty-three percent of small businesses surveyed by the NSBA said that they were unable to obtain funding that they needed, and that the challenges in obtaining funding were more difficult than four years prior.[8] The same was revealed in a 2012 survey by Small Business Majority, in which 90 percent of business owners reported that access to credit was a problem, and 61 percent said getting a loan was more difficult than in previous years.[9]

One reason the financing gap persists is that banks are tending to make larger business loans, as these are more cost effective for them from an underwriting perspective. Reviewing the loan applications from very small businesses seeking small loans takes the same, if not more, time than reviewing loan applications from businesses seeking larger amounts. Yet the larger loans generate a greater return for the bank. Additionally, with many small business owners struggling with the effects of the recession, fully evaluating their creditworthiness takes more than looking at standardized criteria. As such, many banks have pulled back significantly from making loans on the smaller side, and are less willing to take on the risk associated with smaller, less sophisticated businesses.[10] In fact, lending data show that since 2008, total small business loans of $1 million or less made by the large banks has steadily decreased, while loans greater than $1 million have seen an overall increase. More recently, between 2011 and 2012, small business loans decreased by 3.1 percent, but large business loans increased by 12 percent.[11]

The Role of CDFIs in Small Business Lending

TSC, like other CDFIs, plays a key role in expanding access to capital to small businesses, which is key to economic development in the state. In North Carolina, CDFIs have stepped in to fill the gap in lending by reaching entrepreneurs that are not served by mainstream banks and who otherwise might turn to more risky forms of financing, such as credit cards. Without these resources, many small businesses—those like TSC's borrowers—would not have the opportunity to start up, grow, and contribute to the state's economy. Although large banks have reduced their lending to small businesses, they still make the largest volume of small business loans. The critical difference is that CDFIs focus their resources where banks do not; namely, in low- and moderate-income areas of the state that are most in need of economic development.

TSC's previous analysis of small business lending (looking at very small loans under $100,000) in the state showed that, of the census tracts in which CDFIs made small business loans, their investment per census tract in low-income tracts was 44 percent greater than their investment in upper-income census tracts. By contrast,

[6] National Small Business Association. 2012 Small Business Access to Capital Survey. July 2012. http://www.nsba.biz/wp-content/uploads/2012/07/Access-to-Capital-Survey.pdf
[7] Thompson Reuters/ Pay Net Small Business Lending Index. October 29, 2013. http://www.reuters.com/article/2013/10/29/us-usa-economy-paynet-idUSBRE9900C320131029
[8] National Small Business Association.
[9] Small Business Majority. Opinion Survey: Small Business Owner Opinions on Access to Credit and Proposals to Boost the Economy. January 26, 2012. http://www.smallbusinessmajority.org/small-business-research/access-to-credit/access-to-credit_opinion-poll.php
[10] Federal Reserve System. "Addressing the Needs of Small Businesses." Summary of Key Themes from the Federal Reserve System's Small Business Meeting Series. July 21, 2010. http://www.federalreserve.gov/newsevents/conferences/sbc_small_business_summary.pdf.
[11] Small Business Administration. Small Business Lending in the United States 2012. July 2013. http://www.sba.gov/sites/default/files/files/sbl_12study.pdf

large banks' investment in upper income census tracts was 250 percent greater than their investment in low-income tracts. Looking at the volume of lending overall, CDFIs invested 22 percent of their resources in low- and moderate income census tracts, compared to 16 percent invested by large banks.

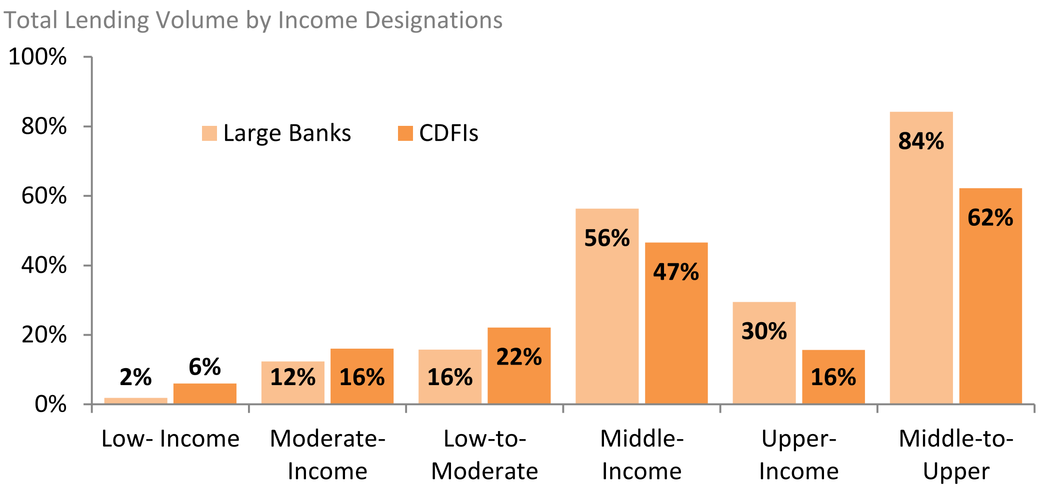
Figure 5. Small Business Lending by Banks and CDFIs in NC, 2010

Census Tract Income Groups	Small Business Lending Per Census Tract*	
	Banks	CDFIs
Low-income	$406,182	$87,244
Moderate-Income	$602,841	$52,037
Middle-Income	$907,419	$52,810
Upper-Income	$1,420,319	$48,689
% Difference between upper-income and lower-income	250%	44%

*In tracts where CDFIs and banks made small business loans.

Sources: Federal Financial Institutions Examination Council. CRA Aggregate Data. 2010.
CDFI Fund, Community Investment Impact System Program Data, 2010.

Figure 6. Percent of Lending Volume to Census Tracts by CDFIs and Large Banks



Sources: Federal financial Institutions Examination Council. CRA Aggregate Data. 2010.
CDFI Fund, Community Investment Impact System Program Data, 2010.

Conclusion

In a difficult credit market, CDFIs are clearly working to bridge the gap between the resources offered by large, mainstream banks and the demand for capital that exists among small businesses. Without these resources, too many entrepreneurs are unable to turn their ideas and dreams into reality. Not only business owners, but workers, communities, and the state's economy are undermined when small business development is inhibited by a lack of access to capital.

The goal of TSC's lending program is to reach business owners that cannot get loans through the traditional capital market. Analysis of the economic multiplier of TSC's loans shows that the return for the state is significant: $2.5 million in income preserved, $1.9 million in income generated, and 1.14 jobs created for every one job created by TSC's borrowers. As the state's economy moves toward recovery, small businesses will play a vital role in the economic development of local communities. CDFIs like TSC are the link between capital resources and developing small businesses—and creating jobs—in the state.

Methodology

This analysis was conducted using IMPLAN 3.0, an industry standard input-output economic impact modeling software, coupled with the software's proprietary 2009 data for the North Carolina economy. IMPLAN has already been employed by analysts in the Fiscal Research Division of the North Carolina General Assembly to assess other economic policy decisions, and therefore using this same methodology is particularly useful for demonstrating The Support Center's positive impact on the North Carolina economy.

IMPLAN is based on input-output analysis, an approach that models a final spending change in the local economy that would not have otherwise occurred (also referred to as modeling an exogenous change in final demand) for a specific region. While limitations to this model exist, in terms of its ability to assess the actual behavior of households or businesses as a result of changes in policy, given its use in the current debate and its reputation as an industry standard, the findings present a reasonable assessment of employment and economic impact.

The core assumption in this model is that the $6.2 million in small business spending that occurred because of TSC's lending *would not have occurred without these loans*—a safe assumption given that a majority of TSC's lending pool comes from federal sources outside the state and the fact that these small businesses were unable to secure loans through traditional capital markets.

In terms of specifics, we modeled loans that saved jobs and loans that created jobs as separate demand changes in order to account for both the final spending reductions in the state's economy had the loans not been extended and the increased spending within the state that led to job creation but would not have occurred without these loans. Based on a survey of TSC's loan recipients, we were able to assign specific loan totals and jobs numbers to specific industries, and then model the effects of these industry-spending changes on the entire state's economy. Given the static, one-year nature of the IMPLAN approach, we modeled each year separately and then multiplied the results by the two-year period of the study. Lastly, we assumed that since all of the jobs retained and created due to TSC's lending are contractually required to be within North Carolina borders, there would be minimal leakage outside the state.

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About The Support Center

Founded in 1990, The Support Center is a statewide nonprofit and certified Community Development Financial Institution that provides loans, support, and programs to help our communities grow and thrive. Our mission is to partner with community-based organizations in providing equitable financial services and resources that foster economic development in underserved communities.

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