Latino Small Business Credit Survey Q2 2021

Small Business Loan Application Data from January 01, 2019 to June 30, 2021

camino
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ACCESS TO CAPITAL WILL DRIVE RAPID DIGITAL TRANSFORMATION FOR LATINO BUSINESSES

Camino Financial's quarterly analysis points to emerging credit demand among smaller Latino-Owned Businesses (LOBs) with the intention to invest in digitalization.

Latino Market Insights

The credit market is re-opening to smaller LOBs earning less than $100k in revenue

Historically, between 50% and 60% of Latino-owned businesses (LOBs) applying for credit generate less than $100k in revenue. During COVID, this proportion dropped as low as 45% given lenders focused on extending credit to larger businesses, typically perceived as lower risk. In Q2 2021, LOBs earning less than $100k in revenue represented 50% of credit applications, showing return in demand from this smaller segment.

Credit scores for Latino applicants remain stagnant compared to their non-Latino counterparts

Non-Latino credit scores are at historical highs with an average credit score of 657, indicating that the average balance sheet of non-LOBs is stronger, potentially attributed to more access to COVID-related stimulus funds. In comparison, Latino applicants' credit score remained stagnant in Q2'21 with an average credit score of 641.

Latino entrepreneurs are beginning to demand credit again

In Q2'21, the percentage of applications from new LOBs (< than a year in business) grew to 26%, indicating Latino entrepreneurs are optimistic about the market and willing to invest in their entrepreneurial endeavors.

LOBs are investing towards their digital future

In order to keep up with digital trends, 42% of LOBs surveyed are planning on investing in social networks such as Facebook marketplace or the Instagram store to attract more customers. Likewise, 59% of LOBs surveyed are adding new products or services that meet the needs of their new customers.

LOBs inch towards digital adoption

Within the last 6 months, 18% of LOBs surveyed reported that over 50% of their revenue is generated online vs. offline, indicating that LOBs adapted to their new consumer needs during COVID pivoting towards digitalizing their businesses.

In terms of payment methods, our survey suggests that 33% of LOBs are adding more digital methods to accommodate their new consumer preferences.

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Conclusion

Access to capital is critical to LOBs investing in digital expansion

LOBs show a clear intention to grow quickly by reinventing their businesses with a particular focus on adding digital channels and capabilities. Furthermore, lenders are beginning to accept applications from smaller LOBs to fund these expansions, but credit score trends suggest that approval rates remain low.

Lack of access to capital restricts LOBs ability to adopt and implement digital practices, limiting revenue from digital channels and reducing their overall ability to expand.

Increasing LOBs access to capital and credit will result in an explosion of growth and innovation within this cohort. Using technology to identify and support these businesses is critical to this effort. Targeted initiatives, e.g., SBA's Community Navigator Program, are critical to providing LOBs access to the resources they need to build resilience and growth in the digital age.
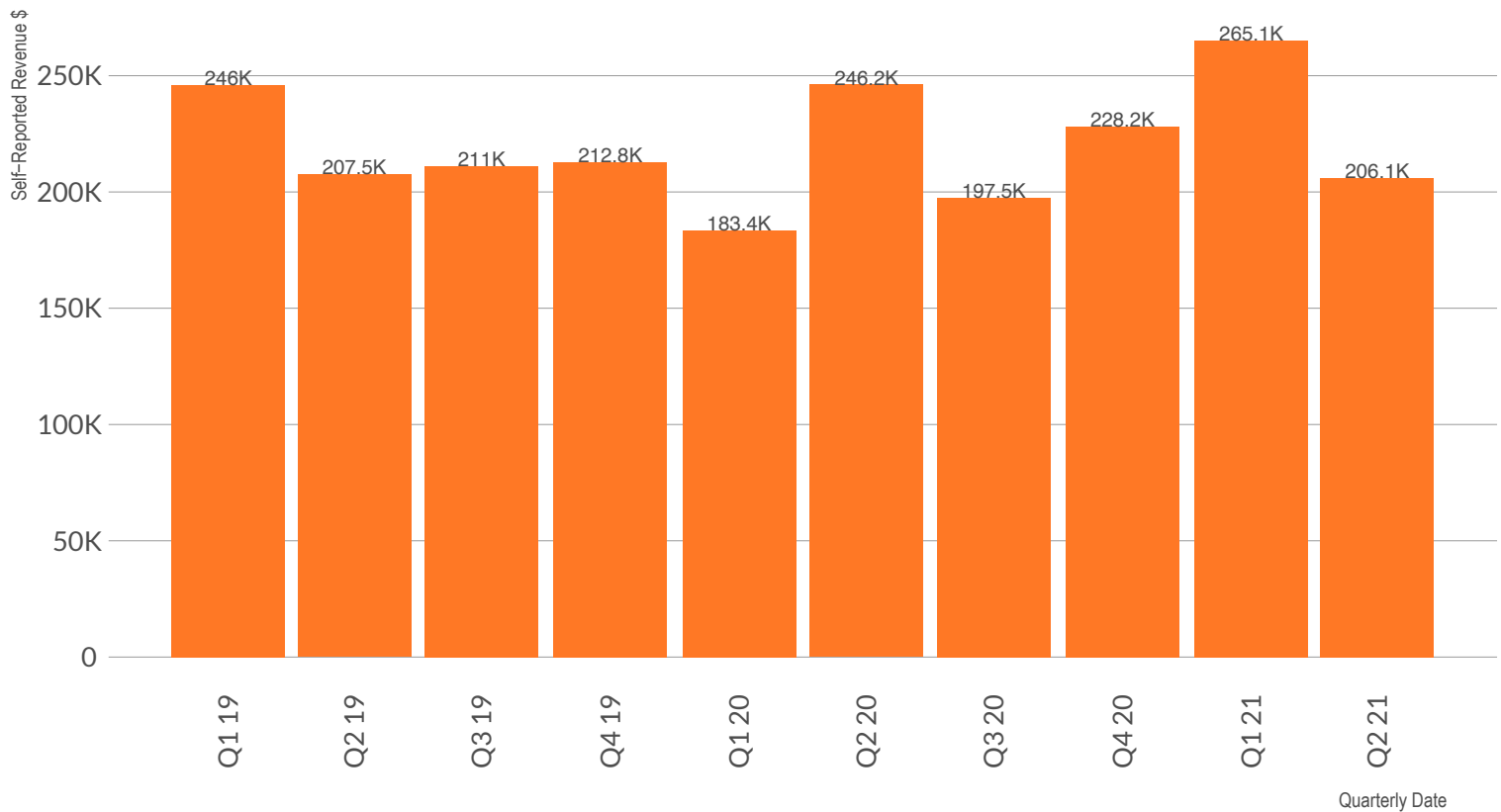
Through initiatives like this, Community Development Financial Institutions (CDFIs) are able to provide small businesses — especially those operating in Low-to-Moderate (LMI) areas — the trusted guidance and funding to upskill their workforce and upgrade their abilities to deliver new digital business models in the post-pandemic era.

About the Survey

Camino Financial's U.S. Latino Small Business Credit Survey provides insights into credit trends within the U.S. Latino small business segment, predominantly those operating in low-to-moderate-income areas and/or owned by first and second-generation immigrants. The report is derived from 45,501 business loan applications to Camino Financial, a fintech platform that uses proprietary artificial intelligence software to aggregate data and build machine learning models that drastically reduce financing costs for Latino small businesses with limited or no credit history.

For more quarterly survey reports and related whitepapers, subscribe to the **Latino Small Business Research** list. All other requests can bedirected to **press@caminofinancial.com**

Average Self–Reported Annual Revenue for U.S. Latino Applicants

Self-Reported Revenue $

246K	207.5K	211K	212.8K	183.4K	246.2K	197.5K	228.2K	265.1K	206.1K
Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21

Quarterly Date

The chart above reflects the quarterly average Self–Reported Revenue for Latino applicants.

In Q2 2021, Latino applicants that self-reported revenue dropped by 22% from the previous quarter, demonstrating increased demand from smaller businesses. This indicates economic confidence and intention to expand on the part of small LOBs.

Average Credit Scores by Quarter and Applicant Type

Applicant Type: — Latino — Non-Latino
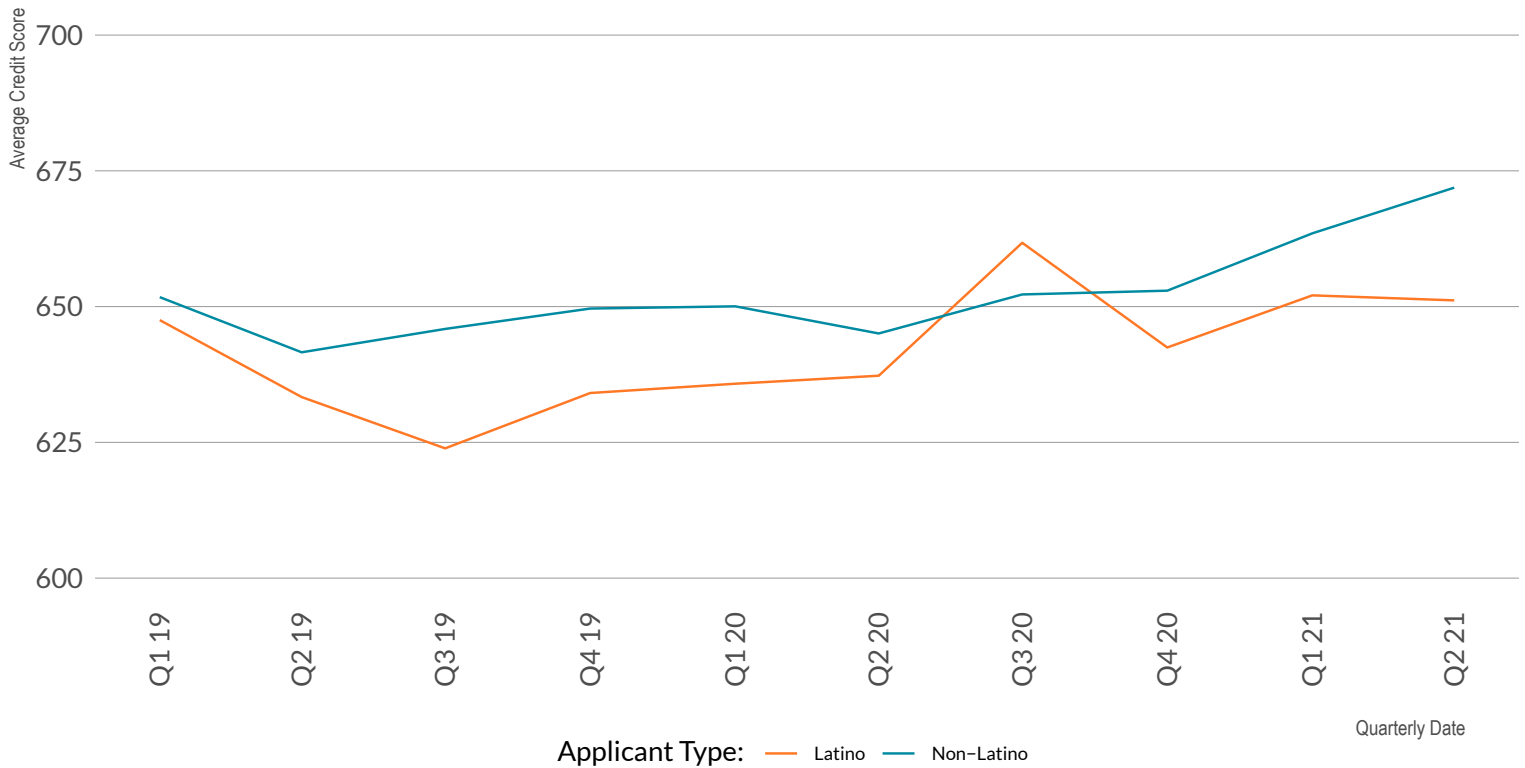
The chart above reflects the quarterly average Credit Score by self-designated cohorts of Latino and Non-Latino business loan applicants. The Credit Score defined herein is a personal FICO score of the applicant measuring applicant credit quality. Higher scores correspond to borrowers with a lower expected rate of credit default. Stratifying Credit Scores helps provide a measure of credit risk by the applicant cohort.

In Q2 2021, Latino credit score dropped slightly QoQ while non-Latino credit scores continued to rise. This indicates that lower-credit LOBs are expressing greater intent to borrow yet approval rates and loan terms may be suboptimal relative to non-LOBs.

Distribution of Q2 2021 Credit Score by Applicant Type
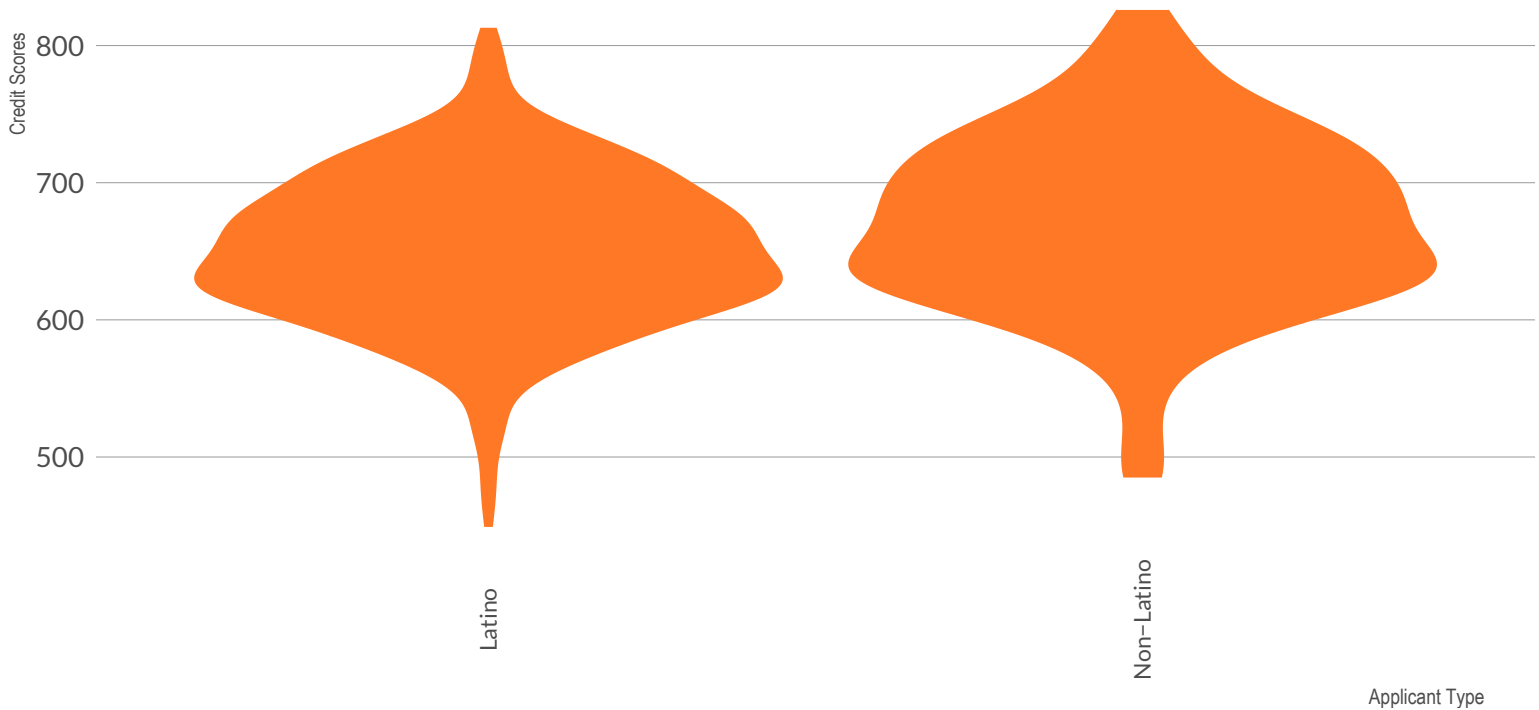
The graph represents the distribution of Credit Scores across each cohort.

Non-Latinos are more evenly spread across the entire range, while Latinos cluster in the 600-700 range with narrower tails at the high and low ends of the distribution. Q2 2021 exhibited significant dropoff from Q1 2021 at both the higher and lower ends of the range, indicating strong growth in applications from LOBs in the middle of the range.

Percentage of U.S. Latino Applicants by Credit Type
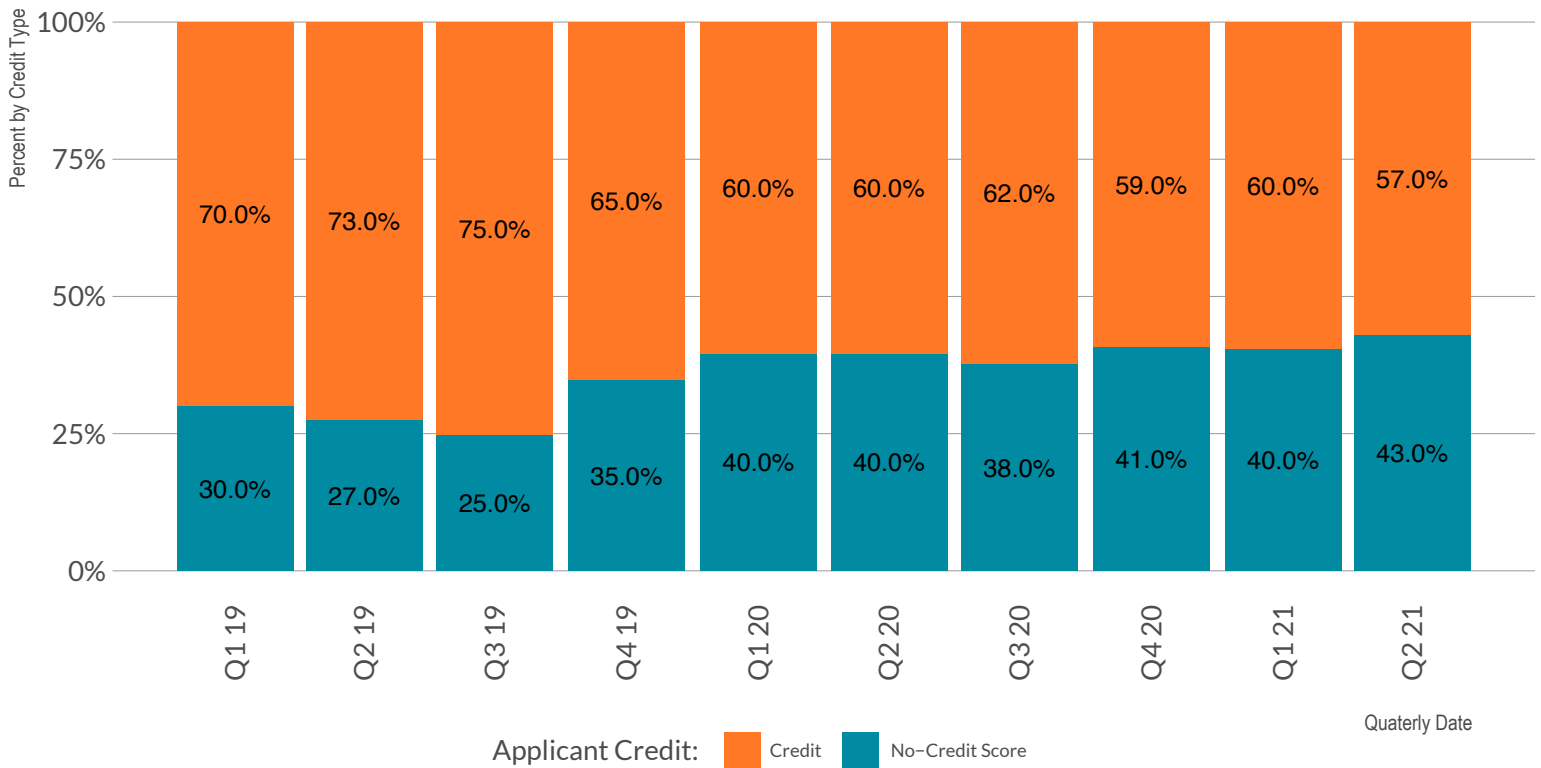
The chart above shows the percentage of Latino applicants by quarter with and without a reported Credit Score. The No-Credit Score category reflects applicants with limited to no credit history based on their identifiers, including but not limited to, Social Security, and Tax Identification Numbers.

Q2 2021 showed a 7.5% growth rate in applicants with no credit score, indicating increased optimism from LOB startups and intent to grow.
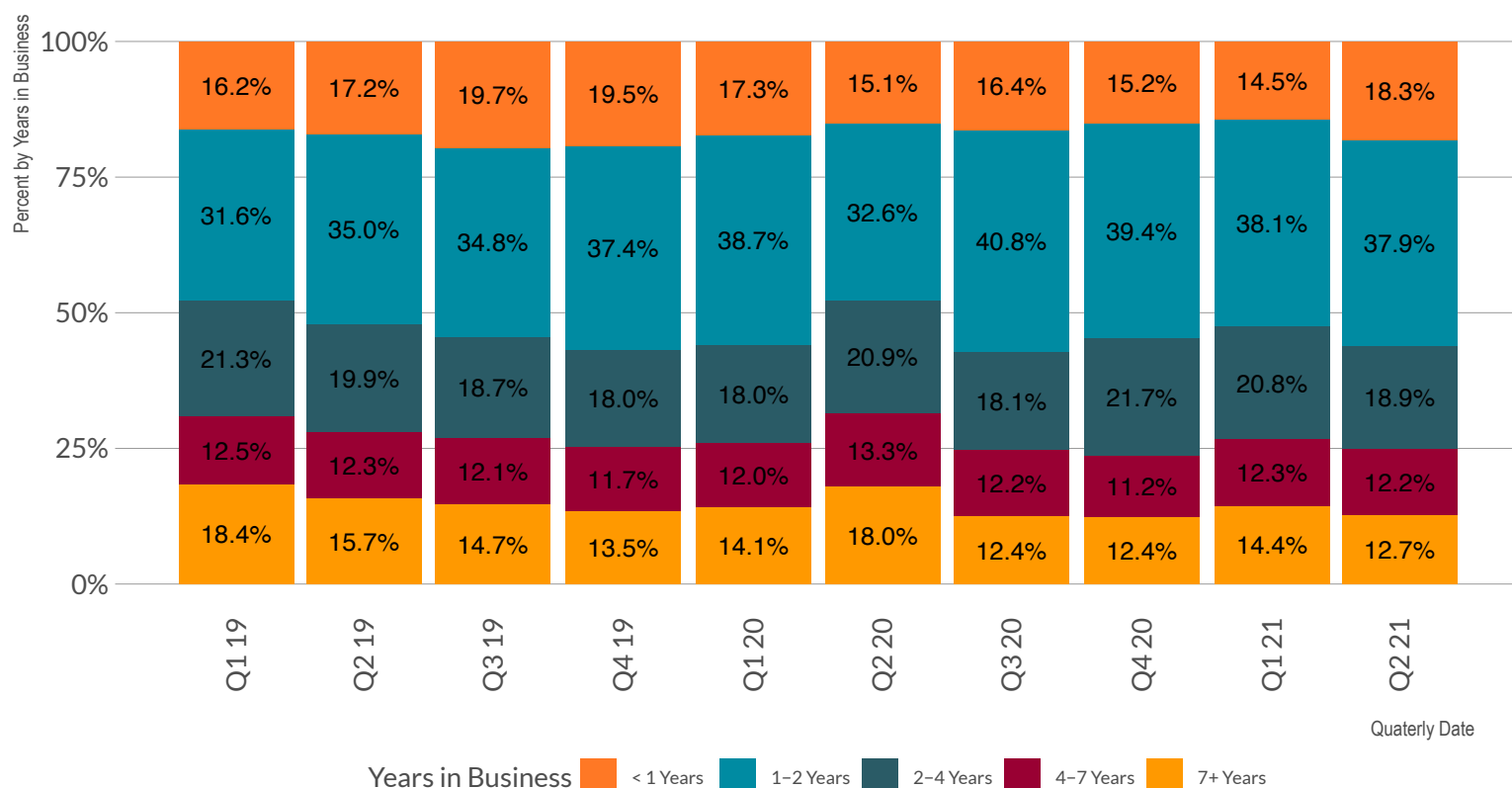
Q2 2021 Distribution of U.S. Latino Self-Reported Revenue by Credit Score
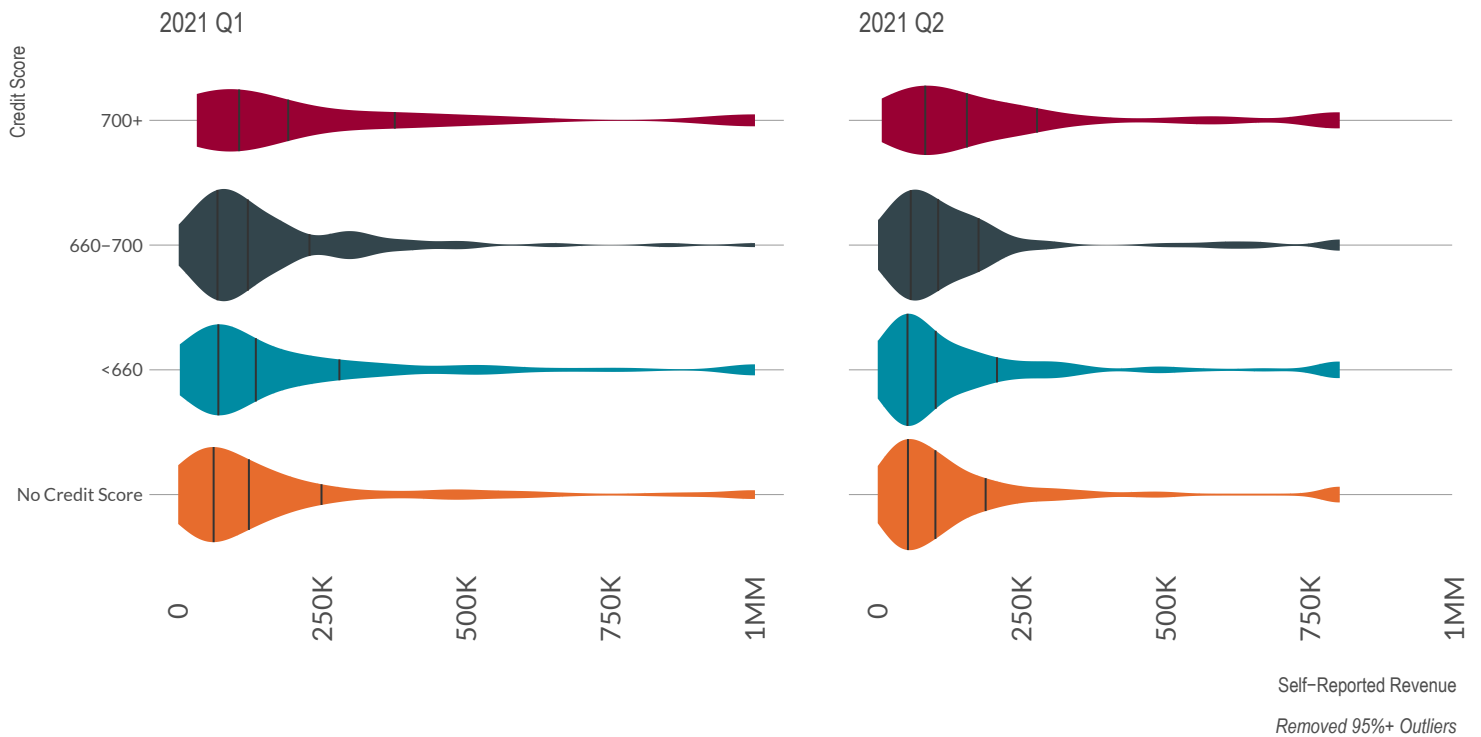
The graph above represents the distribution of Self-Reported Revenue by Credit Score. Self-Reported Revenue represents annual gross sales of an applicant's business. This input is not verified by Camino Financial. The graph demonstrates that credit scores are a reasonable but not the strongest predictor of the size of a Latino business.

Median revenue remained flat at $100K from Q1 2021 to Q2 2021, but applications from businesses >$800K dropped.
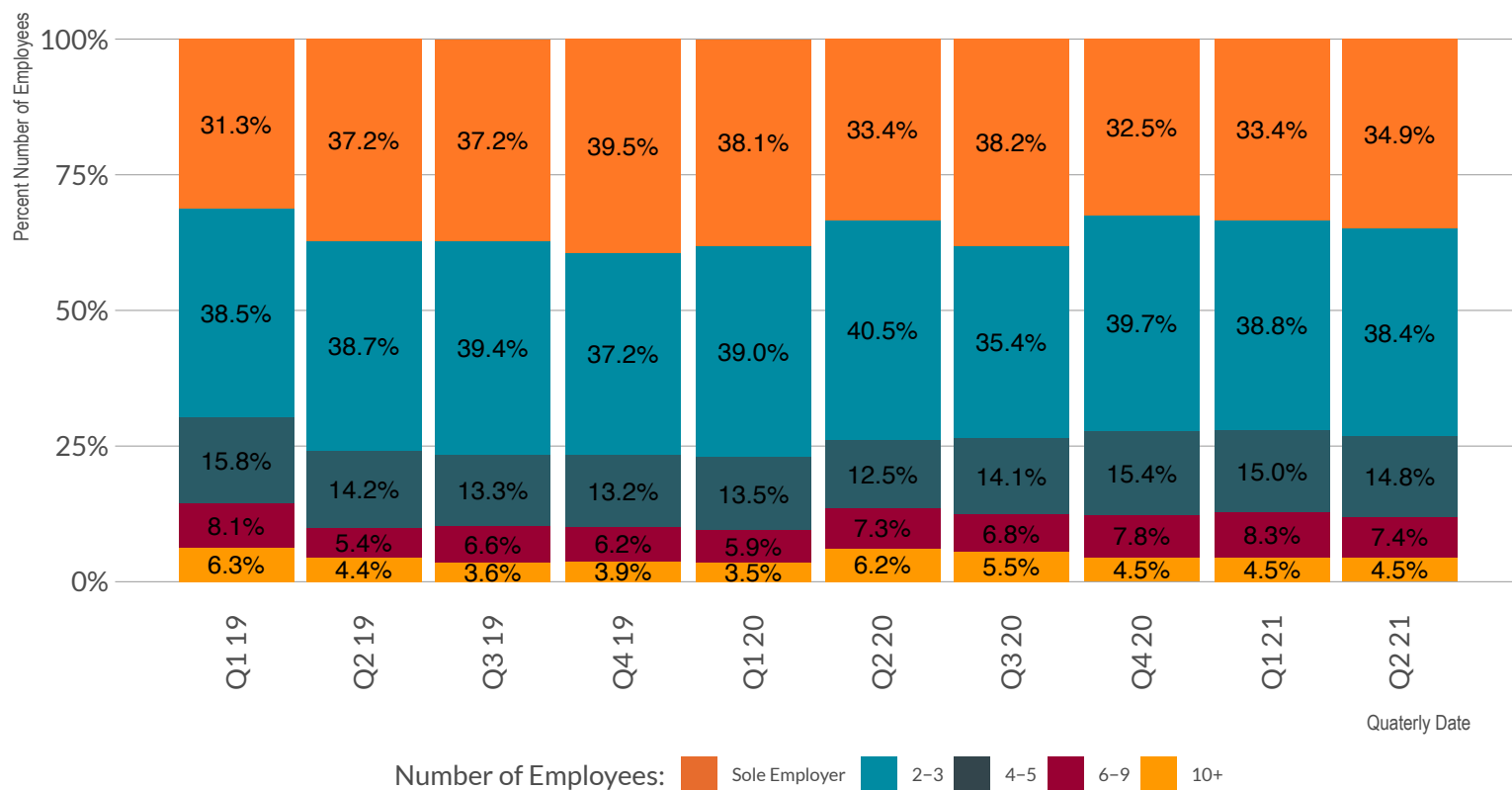
Percentage of Years in Business for U.S. Latino Applicants by Quarter

The chart above shows the percentage distribution of years in business for Latino applicants.

In Q2 2021, applications from new LOBs (<1year in business) grew to 26%, indicating optimism from startup owners and intent to expand, while applications from established businesses (>2 years in business) fell by 8%.

Percentage of Number of Employees for U.S. Latino Applicants by Quarter

The chart above shows the percentage distribution of the number of employees of LOBs applying for a Camino Financial loan.

Applications from microbusinesses (0–3 employees) remained flat from Q1 2021.

Distribution of U.S. Latino Self-Reported Revenue by Quarter

Self−Reported Revenue:

- <$50k
- $50k–$99k
- $100k–$249k
- $250k–$499k
- $500k–$999k
- >$1M
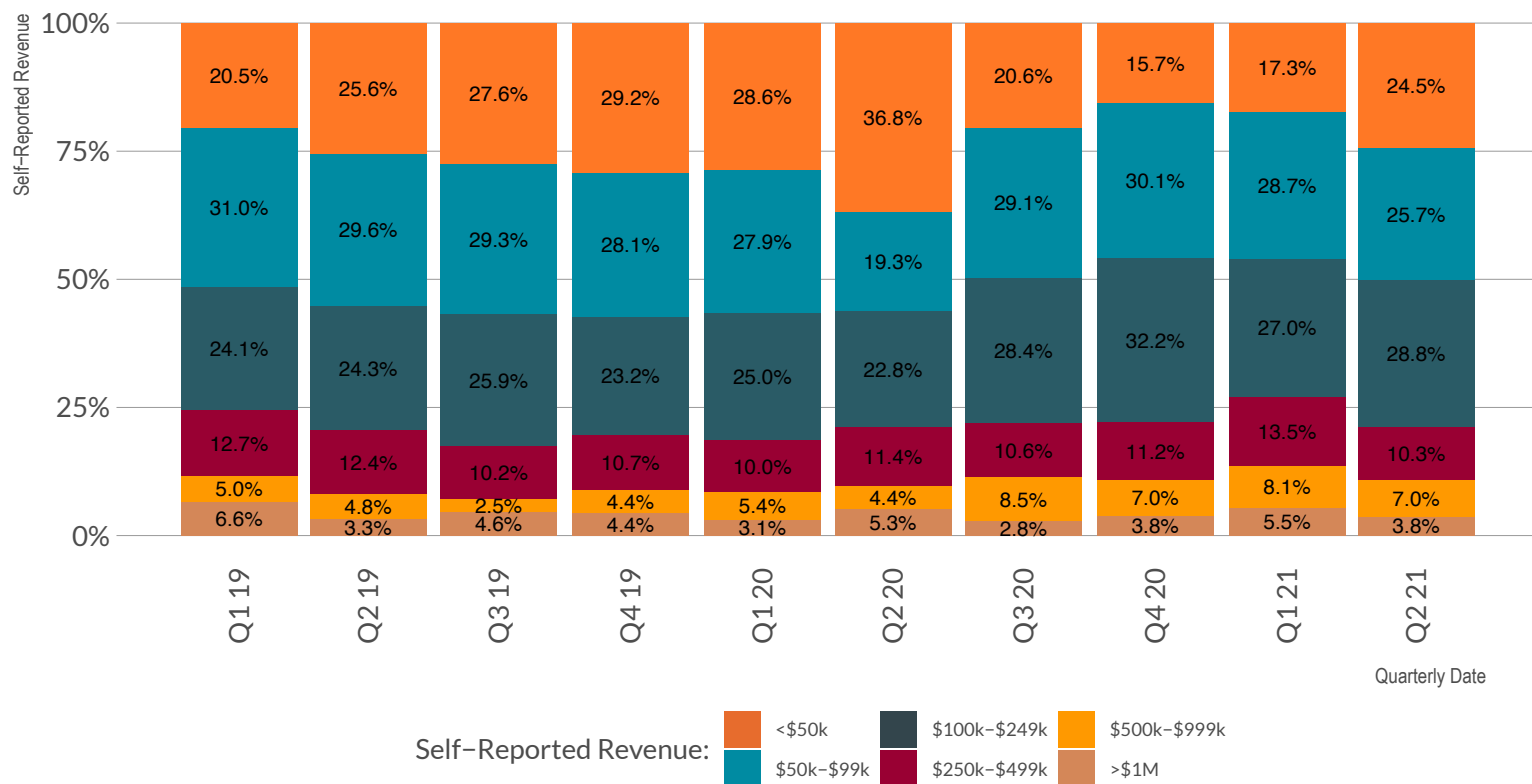
The chart above represents the quarterly distribution of U.S. Latino businesses by Self-Reported Revenue.

Applications from LOBs with revenue <$100K jumped 9% in Q2, indicating return in credit demand to pre-COVID levels for this cohort

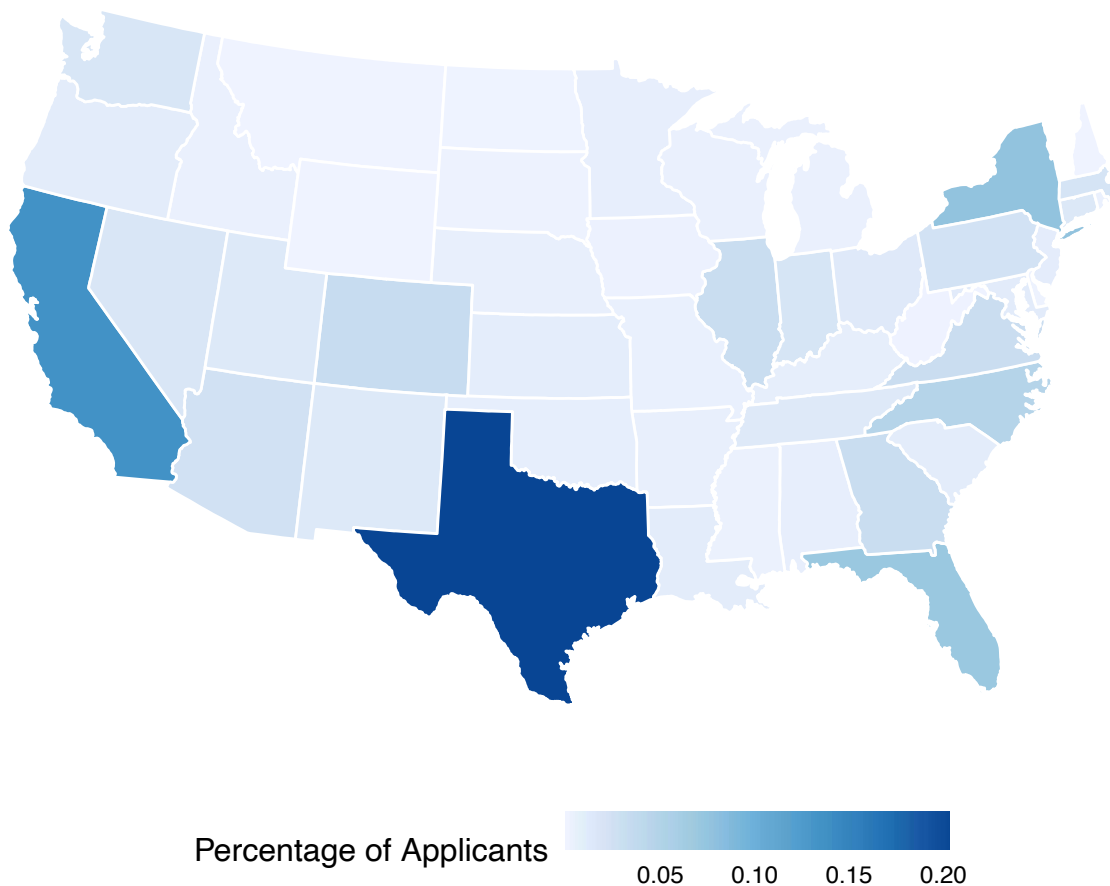## Highest Percent of U.S. Latino Applicants - Q2 2021[2]

Percentage of Applicants

0.05   0.10   0.15   0.20

Table 1: Top 5 States for U.S. Latino Small Business Applicants - Q2 2021

State	Percentage of Applications	Application QoQ Growth	Low to Moderate Income Percent	Average Revenue
Texas	20.0%	99%	84%	$265,754
California	14.00%	34%	92%	$193,106
New York	8.00%	91%	91%	$174,883
Florida	7.0%	7%	90%	$237,572
North Carolina	6.0%	57%	83%	$217,557

Q1 2021 Applicants Low and Moderate Income - Overall[2]
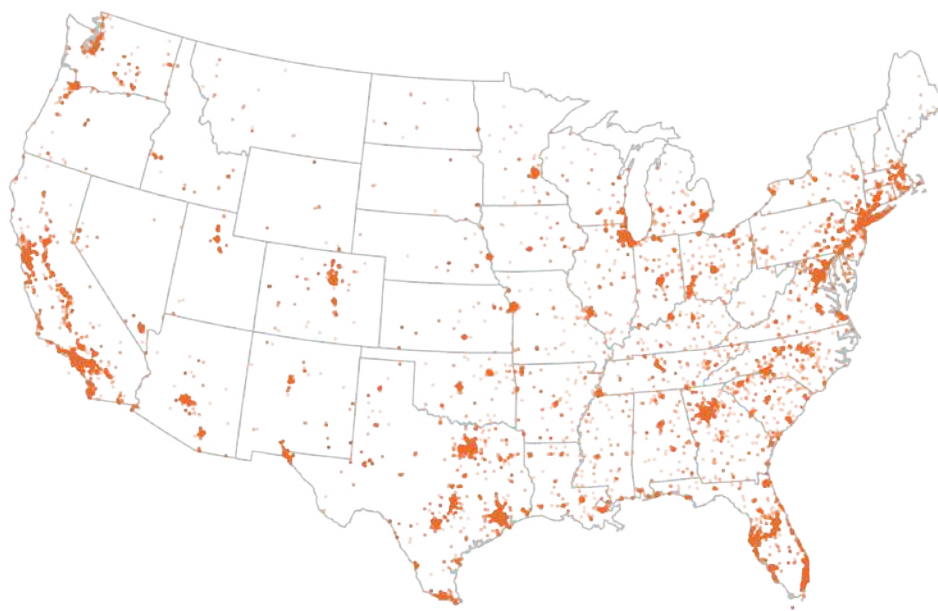
Table 2: U.S. Latino Applicants Stats from LMI Regions

Quarterly Period	Application QoQ Growth	Average Revenue
Q1 19	51.1%	$243,423
Q2 19	36.7%	$198,203
Q3 19	61.3%	$218,194
Q4 19	8.9%	$205,026
Q1 20	-7.5%	$176,763
Q2 20	-79.5%	$237,313
Q3 20	-4.7%	$183,272
Q4 20	96.6%	$221,224
Q1 21	31.1%	$275,069
Q2 21	78.9%	$195,354

The table and map above show the Latino applicants' distribution across Low to Moderate Income ("LMI") areas by quarter and geography. An LMI area is where the median income of households is less than 80% of the median income in the associated metropolitan statistical areas ("MSAs"). The analysis uses zip codes to designate whether the applicant's business is operating in an LMI area per United States Department of Housing and Urban Development.

Q2 2021 shows a spike in QoQ applications from LMI regions from 31.1% to 78.9%, and a sharp drop in average revenue. These larger numbers of smaller businesses seeking financing show emerging credit demand in LMI areas.

2021-04-01 Distribution of Self-Reported Revenue for U.S. Latino Applicants
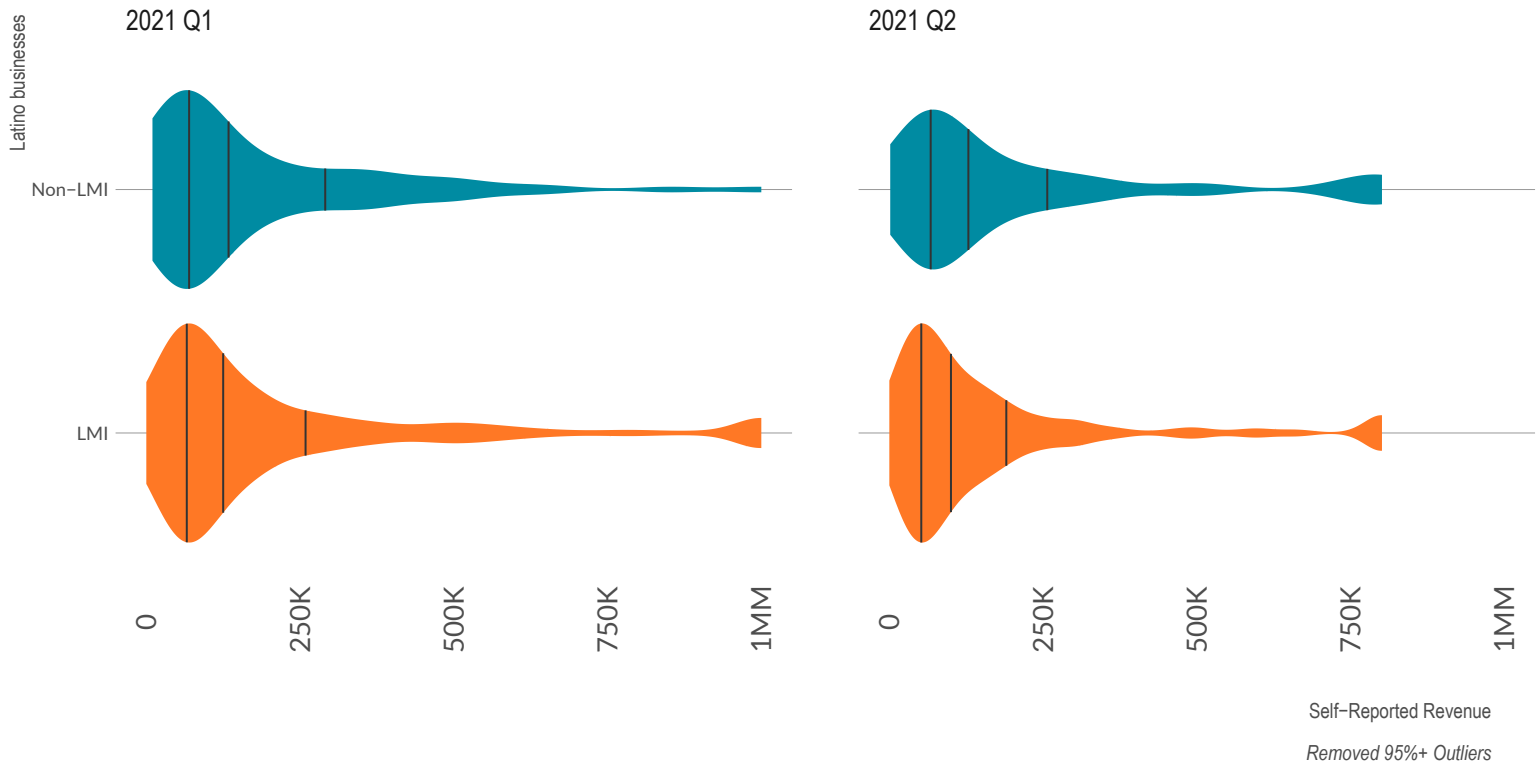
The graph represents the distribution of annual revenue for LMI and Non-LMI Latino applicants.

LOB applications from both LMI and non-LMI regions displayed less revenue, more evidence of smaller businesses seeking credit.

About Camino Financial

Camino Financial is the first AI-powered Community Development Financial Institution ("neo-CDFI") expanding access to credit for underserved Latinx entrepreneurs in the U.S. The Company is uniquely positioned to offer affordable loans as it combines its proprietary AI technology with access to CDFI designated low-cost capital and resources. Camino Financial has also produced the largest bilingual content hub to empower Latinx entrepreneurs to thrive and graduate into lower cost, longer term credit products. The Company partners with banks, corporations and other community partners to educate and finance traditionally underbanked businesses. Together with its partners, Camino Financial is building the largest network of impact capital and financial resources to guide entrepreneurs along their proverbial "camino" (or "path") towards building generational wealth for their families and communities
Learn more at **www.caminofinancial.com**

Methodology

Source Data: The analysis is based on 45,501 small business loan applications received from 1/31/2019 to 6/30/2021 directly by Camino Financial. The Small Business Loan Application pool only includes information from applicants who designated their race or ethnicity. The breakout of Latino and Non-Latino applicants were 32,833 and 12,668, respectively.

Missing Value Analysis: Applications with missing information related to the analysis were removed. Non-Reported Credit Scores were not included when calculating the average Credit Score. Nationwide analysis has limited information for the states of New Jersey, North Carolina, Hawaii, and Puerto Rico.

Outliers: The variables in the analysis have been winsorized to control outlier effects. Winsorizing of data was only performed at .01 and .99 percentiles.

Statistical Significance: Smaller sample size in Q2 2020 and Q3 2020 may produce a lower statistical significance of results.

Notes

1. Data related to the Q2'21 Member Reinvention Survey was based on a survey of 243 LOBs completed between 6/15/2021 - 7/1/2021.

2. Nationwide analysis has limited information for the states of New Jersey, North Carolina, and Puerto Rico.

3. Reduced volume of applications in Q3 2020 results in lower statistical significance.

Disclaimers

The information in this report is an aggregation of Camino Financial's Application Data and survey data from the Q2'21 Member Reinvention Survey.

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