EXECUTIVE SUMMARY

Latino-owned businesses play an important role in the U.S. economy. As the fastest growing segment of the U.S. small business ecosystem, the number of Latino-owned businesses has grown 34% over the last 10 years compared to just 1% for all other small businesses. Were it not for the growth in the number of Latino-owned firms, the total number of small businesses in the U.S. would actually have declined between 2007 and 2012. We highlight below key findings from this report that depict pre-pandemic trends among Latino-owned businesses and areas of additional focus heightened by the pandemic.

All data reported henceforth are for Latino-owned employer businesses (LOBs) and White-owned employer businesses (WOBs), unless stated otherwise.

Latinos are starting businesses at a faster rate than the national average across almost all industries.

The number of employer LOBs has grown by 14% between 2012 to 2017, over twice the U.S. average of 6%. Additionally, the number of employer LOBs grew across 44 out of 50 U.S. states, and grew at a faster rate than the national industry average across 13 out of the 15 industry sectors that include a substantial number (over 1,000) of employer LOBs. Among these industries, the growth rate is highest in the following industries: 1) Construction, 2) Finance and Insurance, 3) Transportation and Warehousing, 4) Real Estate.

Latino-owned employer businesses are growing revenues at a faster rate than White-owned employer businesses.

Over the past two years, Latino-owned firms grew revenues an average of 25% per year while WOB revenue grew at 19%.

Latino-owned employer businesses are significantly less likely than White-owned employer businesses to have loan applications approved by national banks, despite reporting strong metrics on a variety of key lending criteria.

Only 20% of LOBs that applied for national bank loans over $100,000 obtained funding, compared to 50% of WOBs. Considering only scaled firms (annual revenues greater than $1 million) requesting a similar size loan, only 29% of Latino-owned businesses were approved, compared to 76% for WOBs. If loans of all sizes are considered, 51% of LOBs were approved for all or most of their loans requested from national banks, compared to 77% of WOBs. Importantly, after controlling for business performance measures, the odds of loan approval from national banks are 60% lower for Latinos. We explore business performance measures below:

- **Credit**: Latinos who own employer businesses are no more likely to have high credit risk than their White counterparts. Additionally, when considering credit performance, among the most credit vulnerable business owners (e.g., undocumented and microbusiness owners) the default rates are no higher than those among non-Latinos.

- **Profitability**: While WOBs are more likely to operate profitably than LOBs, three quarters of all LOBs report breaking even or generating profit in the last 12 months — a similar rate relative to WOBs. This is despite the impact of the coronavirus generating greater losses than in previous years.

- **Liquidity**: LOBs and WOBs report comparable liquidity with 52% of LOBs and 55% of WOBs reporting they have ample liquidity to operate without the need for credit.

- **Business age**: Given the recent booming growth in the number of Latino-owned businesses, it follows that LOBs are
younger than WOBs. On average, LOBs are 10 years old while WOBs are 14 years old. The median age for both is 12 years.

Scaled Latino-owned employer businesses are more likely to seek and receive funding from sources that expose them to more personal financial risk compared to White-owned employer businesses.

After accounting for application rates, our survey data show that the top sources of funding (over $100,000) with the highest approval rates for scaled LOBs include: 1) Personal or business lines of credit (51%), 2) Personal/family savings (43%), 3) Business credit card(s) (40%), 4) Personal/family home equity loan (37%). On the other hand, the top sources for scaled WOBs include: 1) Business loans from national banks (76%), 2) Business loans from local or community banks (45%), 3) Private equity (36%), 4) Personal/family home equity loan (34%).

Latino-owned employer businesses that participate in formal business organizations (e.g., chambers of commerce and trade associations) are more likely to experience funding success.

LOBs that leverage formal business organizational networks are more than twice as likely to experience funding success as those that did not engage in any networking activities (63% versus 28%). Our data show that businesses that leverage organizational and personal networks are more likely to come in contact with capital providers, which may provide opportunities to build the relationships needed to facilitate funding requests.

For both Latino and White-owned businesses, those led by women are most negatively impacted by the pandemic.

Twice as many Latina-led companies experienced closure compared to Latino-led businesses (30% versus 16%). Layoffs were also higher for Latina-led companies (17% versus 12%). This gender gap holds among WOBs as well. The difference in industry distribution by gender does not fully explain the gap in business closure by industry. We see some differences in having cash on hand. Only about 1 in 10 Latina-owned businesses have enough cash on hand to survive beyond 6 months compared to 2 in 10 Latino-owned businesses. This gap is less pronounced for WOBs. In addition, working from home is also more challenging for Latina-led businesses. Only 20% report that the majority of their employees can work remotely, compared to 34% of Latino-led and 48% of White-male-led companies.

4 Camino Financial.
5 This means that of all scaled employer LOBs that applied for funding from personal or business lines of credit, 51% were approved for amounts of over $100,000.