

## Credit risk among women of color entrepreneurs in the United States

Gender and racial gaps in access to formal credit prevent women from exploiting their full potential and economic opportunities. In the United States, women-owned businesses receive only 16% of all small businesses lending and less than 5% of the total dollar value of these loans<sup>1</sup>. Yet women-owned businesses, a third of which are categorized as small businesses<sup>2</sup>, account for about 50% of all firms in the United States<sup>3</sup>. The gap is even wider for women of color (broadly defined as non-White female entrepreneurs).

One of the biggest barriers is that women are often perceived to be riskier to invest in. This challenge also happens to be the least explored issue when studying the barriers preventing women from accessing the capital they need. I partnered with CNote and led research on how women of color compare to other groups of borrowers in terms of their credit risk.

CNote, a venture capital fund manager, partners with Community Development Fund Institutions (CDFIs) to provide business loans to women to solve the problem of limited access to capital among women of color business owners. CDFIs are lending institutions certified by the federal government to offer financial products and services to underserved communities. I used credit history data from several CDFIs to provide descriptive evidence showing how women of color compare to other borrowers' defaulting and delinquency risk. I did statistical analyses to test whether women of color were riskier borrowers than other borrower groups and generated reports for relevant policymakers.

The main lessons from my research were:

- Women were a safer credit risk than men. Among borrowers who receive loans from CDFIs, defaulting and delinquency risks were, on average, lower for women than for men.
- I also found that women of color were not riskier borrowers than other groups of people. Women of color had comparable risks of defaulting and delinquency to white men and white women and lower credit risk than minority males.
- Even though women were credit worthier than men, they still received smaller loans and were charged higher interest rates than men.

My report detailed possible explanations for these findings, including the likelihood of positive selection bias or risk aversion among female loan applicants and the possibility that loan officers were biased against women. The report concluded with recommendations to key stakeholders to re-evaluate loan application processes and systems biased against women and minorities.

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<sup>1</sup> "State of Women-Owned Business Report, 2018 – AMEX". chrome-extension://oemmndcblldboiebfnladdacbfmadadm/https://about.americanexpress.com/files/doc\_library/file/2019-state-of-women-owned-businesses-report.pdf

<sup>2</sup> ] Roger C Altman and Mark Mckinnon, "Minority and Women Entrepreneurs: Building Capital, Networks, and Skills," GEORGE A. AKERLOF Koshland Professor of Economics University of California, Berkeley," 2015., 8.

<sup>3</sup> State of women-owned business report, 2018