



## **Breaking the Bank: Women Entrepreneurs & the Need for Capital**

### WIPP's Access to Capital Platform

Capital is the lifeline of business. The ability to secure capital is often the determinant of an entrepreneur's opportunity to start or grow a business. For women, however, accessing capital continues to be difficult. In 2013, less than one in three loan applications for women-owned firms were approved.<sup>1</sup> Last year's Senate report on women entrepreneurs found that women only receive 4% of all commercial loans.<sup>2</sup>

These bleak statistics are borne out by Department of Treasury Secretary Jacob Lew, who noted that 8,000 small business loans are rejected every day.<sup>3</sup> WIPP's annual membership survey regularly finds that women must make multiple attempts to secure bank loans or lines of credit – with a full 40% never succeeding.<sup>4</sup> Yet, women make up one-third of business owners, generating more than \$1 trillion annually in receipts, and growing at 1.5 times the rate of average businesses.<sup>5</sup>

In response to this crisis of capital, WIPP has surveyed the landscape seeking policy-based solutions to spur lending to fuel the innovation and success of women entrepreneurs.

### **Changing the Capital Infrastructure**

#### *Simplify Intellectual Property Protections*

- Traditional and alternative investors are increasingly interested in the intellectual property (IP) value of companies seeking funds. Women entrepreneurs, however, lag significantly behind male counterparts in filing patents.<sup>6</sup>
- Simplifying the IP patent process for entrepreneurs will catalyze interest in investment smaller firms.

#### *Re-think Credit Scores*

- Lending decisions relying on credit scores, employment history and income are undermined by the many studies that show women lag behind male counterparts in pay. The pay gap is even worse for women of color with Hispanic women making only 54% of their male counterparts.<sup>7</sup>
- Beyond pay discrepancy, antiquated scoring models disproportionately hinder entrepreneurs seeking loans.
- In 2014, FICO announced an alternative credit scoring system that would allow up to 15 million previously “unscorable” Americans to be scored based on alternative data. This includes payment histories, utility bills, cable bills, cellphone bills, and

public record information (e.g., address history). This alternative scoring model may also help give lower lending rates based on a higher credit score. These modernizations in the credit industry hold great promise for women entrepreneurs and should be utilized in government lending programs.

#### *Develop Female Fund Managers through “Emerging Managers” SBIC Program*

- Venture capital (VC) continues to be elusive to women who need it. Less than 10% of overall VC funding goes to women-owned companies.<sup>8</sup> Data from Small Business Investment Companies (SBICs) licensed by the SBA, show women receive only 3% of investments.<sup>9</sup>
- Few fund managers are women.<sup>10</sup> In a classic “chicken and egg problem”, many women cannot gain the requisite portfolio managing experience to become a fund manager, leading to a cyclic exclusion of women managers – ultimately preventing women from lending to women.
- Creating an “Emerging Managers” track in the SBIC program and allowing these managers to engage in equity-based financing would help develop a generation of female fund managers, who in turn would increase the VC opportunities for women-owned firms.

#### *Tax Incentives for Angel Investors*

- According to the Angel Capital Association, an estimated 300,000 people have made an angel investment in the last two years. The same estimates found a potential of 4 million investors nationwide.<sup>11</sup> Incentivizing this kind of capital should be a priority.
- Connecticut, among other states, has experienced good results by providing a credit against the state income tax to angel investors. Creating a federal tax credit mirroring state models would increase angel investment at the critical early stage.
- More than half of states offer tax incentives for angel investors. Federal support of these efforts would encourage more local and state governments to consider such measures. Federal support could include: grants, matches, or a dedicated fund.
- To the extent possible, tax credits could be designed to incentivize angel investment in underserved communities including women and minority-owned businesses.

### **Supporting Small Lending Institutions**

#### *Ending a “One-size-fits-all” Approach to Regulation*

- Among lending institutions, one-size does **not** fit all for regulatory oversight. Currently, banks and credit unions of all sizes face the same requirements under Dodd-Frank reforms. Community banks, as one example lumped in this group, have seen their banking assets drop more than 12% since the financial oversight regulations went into effect.<sup>12</sup>
- The resources required for complying with the regulation have taken away from a focus on local lending, impacting small business lending. Congress should enact legislation to address the regulatory relief needed for smaller lending institutions.

### *Lift the Credit Union Lending Cap*

- A cap limits most credit unions to lending no more than 12.25% of their assets to small businesses. Credit unions could lend an additional \$16 billion to small businesses, if Congress increases the statutory cap on credit union business lending.<sup>13</sup>

### **Strengthening Government Investment**

#### *Small Business Seat at Securities & Exchange Commission*

- Given that two-thirds of net new jobs in the United States are generated by small business, and considering the growth of regulated alternative capital, the Securities & Exchange Commission (SEC) will play an increased role in oversight of entrepreneurs and the ways they seek capital.
- Small businesses need a seat at the table at the SEC through a formal advocate to ensure adequate representation at the agency. This includes advocating for the timely implementation of policy that will allow entrepreneurs access to capital.

#### *SEC Needs to Issue Crowdfunding Final Rules*

- Women entrepreneurs are **still** waiting on the SEC to release the final crowdfunding regulations. Exempting crowdfunding transactions up to \$1 million from the burden of complex securities registration would remove obstacles to investment via this platform.

#### *Accelerate SBIR Commercialization*

- Innovative products are developed for government use through the Small Business Innovation Research (SBIR) program, which has three phases. Federal support generally stops after the second phase of meeting government needs.
- Modeling the third stage commercialization of SBIR products on a public-private partnership would help bring a pipeline of innovative products – already proven for government use – to market.

#### *Strengthening the SBA Microloan Program*

- Women are the biggest users of loans under \$50,000, accounting for 57% of loans made through the SBA Microloan Program.<sup>14</sup> Congress should modernize the program by removing limitations on technical assistance and allow for funds to be distributed more effectively.

#### *Provide Adequate Resources for Financial & Business Counseling*

- Congress should adequately support organizations such as Women's Business Centers and other non-profits that provide financial counseling and prepare women to obtain capital.

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- <sup>2</sup> U.S. Senate Small Business & Entrepreneurship Committee, *21<sup>st</sup> Century Barriers to Women’s Entrepreneurship*. 2014. Available at [http://www.sbc.senate.gov/public/?a=Files.Serve&File\\_id=3f954386-f16b-48d2-86ad-698a75e33cc4](http://www.sbc.senate.gov/public/?a=Files.Serve&File_id=3f954386-f16b-48d2-86ad-698a75e33cc4)
- <sup>3</sup> Department of Treasury, “Secretary Jacob J. Lew Delivers Remarks on Growing America’s Small Businesses at the Capital Access Innovation Summit.” 2013. Available at <http://www.treasury.gov/press-center/press-releases/Pages/jl1979.aspx>.
- <sup>4</sup> Women Impacting Public Policy, *Business Women Speak Out on the Issues*. 2014. Available at [http://www.wipp.org/resource/resmgr/Docs/2014\\_WIPP\\_National\\_Survey\\_of.pdf](http://www.wipp.org/resource/resmgr/Docs/2014_WIPP_National_Survey_of.pdf).
- <sup>5</sup> National Women’s Business Council, *Women-owned Businesses*. 2014. Available at <https://www.nwbc.gov/facts/women-owned-businesses>.
- <sup>6</sup> National Women’s Business Council, *Intellectual Property and Women Entrepreneurs*. 2012. Available online at [https://www.nwbc.gov/sites/default/files/IP & Women Entrepreneurs.pdf](https://www.nwbc.gov/sites/default/files/IP%20&20Women%20Entrepreneurs.pdf)
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- <sup>9</sup> Visalia-Times Delta, “Achieve smart, bold, accessible small business gains.” 2015. Available online at <http://www.visaliatimesdelta.com/story/opinion/2015/04/25/achieve-smart-bold-accessible-small-business-gains/26317567/>.
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- <sup>11</sup> Angel Capital Association, “FAQs for Angels & Entrepreneurs” 2015. Available online at [http://www.angelcapitalassociation.org/faqs/ - How many angel investors are there in the U.S.?](http://www.angelcapitalassociation.org/faqs/-How-many-angel-investors-are-there-in-the-U.S.)
- <sup>12</sup> George Mason University’s Mercatus Center, “Scrap the Regulations that Thin the Ranks of Small Banks.” 2015. Available online at [http://mercatus.org/expert\\_commentary/scrap-regulations-thin-ranks-small-banks-dodd-frank](http://mercatus.org/expert_commentary/scrap-regulations-thin-ranks-small-banks-dodd-frank).
- <sup>13</sup> Credit Union National Association, “Member Business Lending.” 2014. Available online at <http://www.cuna.org/member-business-lending.aspx>
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