DREHER TOMKIES LLP

ALERT

FOR CLIENTS AND FRIENDS OF DREHER TOMKIES LLP

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FEDERAL RESERVE REPORT FINDS WOMEN-OWNED FIRMS FACE FINANCING CHALLENGES

The Federal Reserve Banks of New York and Kansas City issued the *2016 Small Business Credit Survey: Report on Women-Owned Firms* ("Report") that examines the experiences of women-owned small employer firms based on results from an email survey sent to firms via organizations that serve the small business community. The Report provides insights into the sources and implications of the "entrepreneurship gender gap" by comparing women- and men-owned firms' credit risk, collateral, performance, credit applications and approval rates.

The Report defines a women-owned firm as a small business that has majority female ownership (51% or more ownership) in 2016. The Report finds that women-owned firms are concentrated in less capital-intensive industries, but are more likely to experience financial challenges and growth limits than men-owned firm.

The Report included the following information regarding credit risk, debt, credit applications and types of financing:

- The same percentage of women-owned and men-owned firms have outstanding debt, but women-owned firms tend to hold smaller amounts of debt ($100,000 or less) and unsecured debt.
- 66% of women-owned firms applied for credit in the amount of $100,000 or less as compared to 49% of men-owned firms.
- 58% of women-owned firms regularly use credit cards, 28% of women-owned firms have a loan or line of credit, and 8% of women-owned firms hold trade credit. Credit cards are a common financing tool for both women- and men-owned firms.
- Women-owned and men-owned firms apply for business credit at similar rates, but women-owned firms reported feeling discouraged from applying for credit at a higher rate.
- Women-owned firms (47%) were less likely to receive business financing than men-owned firms (61%), but women-owned business were more often approved for SBA loans/lines of credit.
- 53% of women-owned firms identified themselves as medium/high credit risk as compared to 40% of men-owned firms.
- Women-owned firms are less likely to apply for lines of credit.
- Women-owned firms were more likely to apply to large banks for credit, but were more likely to be approved for credit by small banks versus large banks.

The Report characterized women-owned employers as a "growing segment" and noted that between 2007 and 2015, the share of employment by small women-owned firms increased by 20%, even though the share of employment by all small firms declined by 4%. As of 2015, women-owned firms accounted for one-fifth of U.S. firms.

Some industry members have observed that online application and automated decisioning benefits women-owned businesses by reducing perceived loan bias and providing a less intimidating forum to apply for credit as compared to traditional branch banking. ❑

✧ *Mike Tomkies, Susan Seaman and Lindsay Valentine*

Darrell L. Dreher
ddreher@dltlaw.com

Elizabeth L. Anstaett
eanstaett@dltlaw.com

Emily C. Cellier
ecellier@dltlaw.com

Susan L. Ostrander
sostrander@dltlaw.com

2750 HUNTINGTON CENTER
41 S. HIGH STREET
COLUMBUS, OHIO 43215
TELEPHONE: (614) 628-8000 FACSIMILE: (614) 628-1600
WWW.DLTLAW.COM

Michael C. Tomkies
mtomkies@dltlaw.com

Susan M. Seaman
sseaman@dltlaw.com

Lindsay P. Valentine
lvalentine@dltlaw.com

Judith M. Scheiderer
jscheiderer@dltlaw.com

Robin R. De Leo
robin@deher-la.com