WHEN BUSINESS GETS PERSONAL

Addressing the Financial Health Needs of Small Business Owners
The Center for Financial Services Innovation (CFSI) is the nation’s authority on consumer financial health. CFSI leads a network of financial services innovators committed to building a more robust financial services marketplace with higher quality products and services. Through its Compass Principles and a lineup of proprietary research, insights, and events, CFSI informs, advises, and connects members of its network to seed the innovation that will transform the financial services landscape.

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Business owners are under tremendous pressure: to generate income, to create and grow profitable enterprises, to hire and support employees, and to drive economic growth for their communities.

Particularly for small businesses owners, these financial pressures can also put stress on their personal finances, which are often deeply intertwined with those of their business. Small business owners undertake financial burdens and risks when starting, growing, and operating their businesses that greatly impact their personal financial health. On top of that, women and people of color are starting businesses at higher rates than ever, and they have personal financial health needs that must be addressed to scale and grow their endeavors. Yet despite the incredibly important role that small businesses play in the U.S. economy, few products and services aim to serve the complex personal financial health needs of the small business owner.

To support a marketplace more adept at serving the needs of small business owners, we analyzed the unique financial health challenges of this group, especially those from underserved populations, and then scanned the marketplace for promising products and solutions. We identified four needs that are especially acute for small business owners. In the marketplace review, examples of how to address these needs emerged.
**EXECUTIVE SUMMARY**

A summary of the four needs and in-market solutions are categorized below.

### Small business owner financial health needs and in-market solutions

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In the end, we found that a limited number of providers – mostly nonprofits and a few tech companies – are addressing small business owners’ specific financial health needs. With the right amount of investment, partnerships, and funding, however, the financial marketplace could develop more solutions that lead to greater outcomes for entrepreneurs, small businesses owners, and, ultimately, their businesses.
Starting and running a business is hard, and it is even harder for an entrepreneur who must overcome personal financial health challenges.

With 27 million in the U.S., microbusinesses – businesses with zero to four employees – are the most common form of small business and growing, especially among women and people of color. For these proprietors, their personal and business finances are often intertwined. The owner’s personal finances and the business’ finances can affect each other acutely, for better or for worse. The financial products and services available to entrepreneurs and small business owners often firmly delineate the two, however, reflecting separate consumer and business product regulations and provider perceptions.

An individual’s personal financial health is fundamental to their ability to start, run, and grow a business. Therefore, CFSI researched the products and services available to small business owners, as individuals, to identify the current innovators and the market opportunities to better meet their unique financial needs. Specifically, we sought out products and services designed to support the financial health of entrepreneurs and small business owners, especially those from underserved populations, as they manage their personal and business finances.

INTRODUCTION

The connections between the financial health of the small business owner as an individual and the business as an entity come into play even before businesses are formed.

Rates of small business ownership are lower among lower-wealth populations

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<th>Business ownership rate by race/ethnicity</th>
<th>Median wealth of the full U.S. population by race/ethnicity</th>
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<tr>
<td><strong>9.8%</strong> WHITE</td>
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<tr>
<td><strong>6.5%</strong> BLACK</td>
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<td><strong>6.2%</strong> HISPANIC</td>
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Yet small businesses can be a wealth-generating endeavor, and many organizations are investing in better understanding the barriers to small business ownership and growth.2 Research shows that many of these barriers are linked to individuals’ financial assets, including the lack of savings and access to affordable credit disproportionately faced by black and Hispanic households.3

While the research identifies a strong link between indicators of personal financial health and entrepreneurship rates and business size over time, services to address the personal financial health needs of microentrepreneurs lack capital and scale. To promote entrepreneurship and small business success, the marketplace must invest in the personal financial health of small business owners and aspiring entrepreneurs.

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To produce this report, CFSI reviewed an extensive collection of research on microentrepreneurs and their financial health needs.

Drawing on our expertise in consumer financial health and provider interviews, we then identified four needs that are especially acute for underserved small business owners. We also performed a landscape scan of the products and services available in the market designed for small business owners and those who aspire to start a business.

Through conversations with nonprofit and for-profit providers, we identified the products and services available to support small business owners, especially those who are underserved. Finally, we compared the existing products and services with the financial health needs of small business owners and identified promising solutions, along with challenges to scaling nonprofit services.
The Financial Health Needs of Small Business Owners

Small business owners have personal financial health needs that stand apart from the typical consumer, and often require services that go above and beyond that of a traditionally employed consumer. The interconnected nature of personal and business finances can exacerbate the challenges already experienced by millions of consumers, such as a lack of emergency savings. For low-income entrepreneurs, people of color, and women, addressing personal financial health needs is crucial to supporting their entrepreneurial endeavors.

We identified four financial health needs that are especially relevant for microentrepreneurs and small business owners. Each of the needs corresponds to one of CFSI’s four components of financial health: spend, save, borrow, and plan.

- Manage personal and business income and expenses separately
- Protect personal savings to support resiliency
- Establish, build, and maintain a prime credit score
- Plan for personal and business volatility
Some level of separation of business and personal finances benefits the owner. It is nearly impossible to understand the financial performance of a business without an accounting of business income and expenses. Without some level of separation, the owner will certainly find it time-consuming to generate an accurate accounting of the business for tax purposes and may miss out on tax deductions for business expenses. Commingling of accounts can also cost the small business access to external funding, as most external capital providers require independent financial records.

The separation can feel forced and overly formal, however, given the fluidity between the small business owner’s household finances and the business’ income. Opening a separate account is not only burdensome for small business owners, but also comes at a cost. Many may find requirements like visiting a branch in person or producing business documents to be too much of an administrative hurdle. For the digitally savvy, there are increasing options for low-cost accounts, but these are not a good match for those who transact in cash or need other branch banking services. Maintaining funds in separate transactional accounts can also cause delays if the owner wishes to transfer funds between accounts at different institutions, which typically takes multiple business days to clear. Therefore, separation may be most beneficial in terms of recordkeeping and budgeting, but not in speed, liquidity, or convenience.
Short-term savings are a key component of household financial health, providing a financial cushion against income and expense volatility. The U.S. Financial Diaries found that most households experience several months of the year with at least 25 percent less than their regular monthly income or higher-than-normal expenses. Considering that 41 percent of U.S. adults would find it challenging to cover an emergency expense of $400, households are already stretched too thin. Emergency savings are crucial to financial resilience. Even a small amount of savings can protect a household from negative events, such as missing housing or utility payments.

Yet small business owners often use their personal funds to launch their businesses and to weather business financial challenges. Roughly four in five microbusinesses that reported financial challenges addressed the challenges using personal funds. Using personal savings for business expenses can leave a household exposed in the case of all-too-common financial shocks. And when a business is doing well, a lack of access to capital for microenterprises means personal and family savings are still a primary source of funding.

Although savings provide a debt-free way to capitalize a business, entrepreneurs need a way to cover business expenses without putting the household at risk, and support in building their personal savings buffer.
The personal credit score is a key determinant of access to capital as an individual and as a small business. Even when seeking credit explicitly for the small business, the owner’s credit score is still a factor in qualifying. This is especially true for early-stage and microbusiness owners who do not have activity reported to the business credit bureaus, and thus often rely solely on the personal credit score.\(^8\)

Yet 121 million Americans are credit-challenged with subprime credit scores (68 million\(^9\)) or a thin or no credit file (53 million\(^10\)), limiting their access to affordable credit products for either personal or business purposes. The importance of the personal credit score for a small business owner cannot be overstated. Personal credit scores affect access and price for all of the credit needs of the household and business, as well as insurance and other non-credit products.

Additionally, for entrepreneurs who are able to obtain credit, taking on debt for their business can harm their personal credit score by maxing out their credit utilization. Using personal credit continues to intertwine the business and personal finances, yet it is often the only option available to microentrepreneurs.

Given the importance of a personal credit score and positive credit history, entrepreneurs need guidance and access to affordable, high-quality products\(^11\) that help them to build credit.

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\(^10\) “Who Doesn’t Have a FICO® Score?” 2015. FICO.
\(^11\) CFSI’s Compass Principles serve as a framework to assess quality in financial products and innovations. They are guidelines that define how the industry can design and deliver the basic tools that people use to manage their day-to-day finances and improve their financial health over time. For more on CFSI’s Compass Principles for Quality, see https://cfsinnovation.org/research/one-page-overview-of-the-compass-principles/.
\(^12\) CFSI’s Consumer Financial Health Study found that Holding all else constant, those who say they plan ahead to make sure they have the money to pay for large, irregular expenses are 10 times more likely to be financially healthy than those who are not.

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The JPMorgan Chase Institute found that half of its small business customers hold less than a month of cash on hand to cover expenses if income stopped.
Promising Solutions for Small Business Owners

Through our landscape research, we found many nonprofit organizations and a handful of for-profit companies that are attempting to meet the financial health needs of small business owners. Perhaps not surprisingly, nonprofit organizations with missions to improve the financial lives of disadvantaged groups have identified these needs and built programs and services to support their clients’ financial health. Yet nonprofits face financial challenges of their own and difficulty scaling, especially when they offer their services in-person. For-profit providers, in turn, need a path to profitability – a business model that balances their need to generate returns while offering affordable, high-quality products. Despite the current gaps in the market, there are a host of inspiring models to learn from, which are featured here.
Manage personal and business income and expenses separately

Solution: Incorporate personal financial management into entrepreneurship programs

The nonprofit Mujeres Latinas en Accion Empresarias del Futuro provides leadership, financial literacy, and entrepreneurship training to Latina women to start or expand a small business. Empresarias pays special attention to the importance of developing good personal financial practices when preparing to start a business. One of the first modules during the 15-week course consists of a Personal Financial Improvement Plan, focused on the importance of creating and maintaining a personal budget at home. For many of the women in the program, this is a must, since they have not managed the finances at home or been exposed to budgeting. Empresarias clients primarily come from challenging backgrounds, including women who are sexual and domestic abuse survivors; undocumented women who have had a hard time finding employment; and highly educated women who had a business abroad but are trying to restart their careers in the U.S. The graduates establish foundational practices for managing their personal finances, setting them up to manage their business finances as well.

Solution: Lower barriers to opening business accounts

Many entrepreneurs plan to formalize their business by registering with local, state, and federal government agencies one day, and most business accounts require this type of documentation. Created for smaller enterprises, including freelancers and the self-employed, the NetSpend Small Business Prepaid Mastercard card functions like other reloadable prepaid accounts, while allowing for higher spending limits. To open the account, proof of registration of the business entity is only required if the name is to appear on the prepaid card. The account also supports budget management: It links to apps that facilitate multiple forms of payment acceptance, can be divided into subaccounts that allow multiple users to spend limited amounts, and allows for exports of transactions to facilitate business tax preparation.

Solution: Streamline tax management

Documenting and filing taxes can be particularly daunting for small business owners if they lack appropriate tools to sort, track, and aggregate business expenses. This task is often made more burdensome when individuals mingle personal and business activity, or are unaware that some business spending qualifies for tax write-offs. Intuit’s Tax Bundle pairs TurboTax Self-Employed with QuickBooks Self-Employed, allowing users to separate their business expenses from personal ones without opening a new bank account, identify business-related deductions through mobile apps that track data such as mileage expenses, estimate business taxes owed, and send this information directly to the TurboTax platform for quarterly filing. This not only saves small business owners time, but also can save the user money by optimizing deductions.
Protect personal savings to support resiliency

**Solution: Promote microsavings**

As a nonprofit, Grameen America provides microloans and financial education to low-income women entrepreneurs and facilitates peer knowledge-sharing and social support. In addition, Grameen America helps its clients with asset-building and credit-building. Grameen America guides clients to open and make regular deposits into no-fee savings accounts with a partner banking institution (a commercial bank or credit union). For most of these women, who are typically unbanked or underbanked, the savings account they open during the program is their first. By encouraging the habit of asset-building, even of as little as two dollars per week, Grameen America helps clients grow their emergency savings and keep their funds safe. This increases the likelihood that when an unexpected or urgent expense arises, they can use their savings, rather than being forced to resort to expensive forms of credit.

**Solution: Transform one person’s savings into another’s cushion**

Cooperative forms of saving that leverage social capital and commitment, as well as mechanisms to create a savings cushion and provide future access to low-cost credit, can be particularly useful to entrepreneurs struggling to save for personal or business needs. The nonprofit Mission Asset Fund (MAF) provides services to address this need through Lending Circles. Participants work with six to 12 peers, each making monthly payments of $50 to $200 into a rotating loan pool. This provides each member with the opportunity to receive a no-interest loan of up to $2,400 on a rotating basis, magnifying the individual’s savings and allowing access to funds before they have accumulated thousands on their own. To benefit participants further, the payment activity is reported to the three major credit bureaus, increasing participants’ credit scores by an average of 168 points over the course of their involvement.
Solution: Provide pathways to strong personal credit scores

The nonprofit Justine PETERSEN embeds personal credit building into all the services it offers, including micro and small business services, based on the idea that personal finances are foundational to the success of the owner’s business endeavor. This includes a full review of their credit report and assistance in addressing items that are lowering the client’s credit score.

To address the Catch-22 of credit (you only get credit if you have credit), LiftFund, a nonprofit microlender, provides microcredit in amounts as small as $500 for entrepreneurs who want to build credit and do not qualify for bank loans. LiftFund’s algorithm is tailored to assess risk for microentrepreneurs, who often conduct their business on the side while maintaining outside employment, and does not require very small loan applicants to separate business from personal funds. Their typical first-time borrower enters the program with a personal credit score of 575. The loan payments are reported to a credit bureau via the Credit Builders Alliance to build personal credit scores. LiftFund encourages those who do not immediately qualify for a loan to address elements of their financial profile holding them back and return in 60 to 90 days, after building up their recent deposit history, to demonstrate higher creditworthiness.

The nonprofit lender Opportunity Fund has made a significant effort to provide small business loans to “credit invisible” borrowers, and over the past decade has made loans to over 1,000 clients who had no credit score at the time of the first loan. The positive impact was particularly high for clients who had one or more repeat loans, with the average credit score for those clients reaching 630.

The International Rescue Committee (IRC) established a subsidiary Community Development Financial Institution – the Center for Economic Opportunity – to provide capital to resettled refugees and others who have typically been in the country for only a few years and are aiming to launch a small business while contending with low incomes and little to no credit histories. To support their establishment in the U.S. financial system, IRC offers credit-builder loans of as little as $100, followed by a subsequent loan of $300 for those

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14 Credit Builders Alliance (CBA) provides nonprofits with both the ability and critical technical assistance to report loan data to credit reporting agencies, and to pull low-cost client credit reports for the purposes of financial education, outcome tracking, and underwriting.
who successfully repay the initial loan, an amount large enough to use as collateral for a secured credit card to build further credit. This lending process provides a path for those who are new to credit to achieve a score of as high as 640 in six months’ time and close to 700 in a year’s time. Along with lending, a key component of IRC’s program is ongoing business technical assistance and financial coaching. The integration of loans into related wealth-building programs allows the lender and borrower to take a holistic view. If the borrower falls short on cash flow, they strive to find a mutually beneficial repayment schedule while protecting the borrower’s credit score.

The integration of loans into related wealth-building programs allows the lender and borrower to take a holistic view.

Solution: Help small business owners make informed credit decisions

For small business owners seeking credit, building their credit scores and seeking loan approval represents only part of the challenge. Simply finding a safe, high-quality loan for which they can qualify is also far from certain. The range of options for small business loans can vary widely, and comparing options can be time-consuming and intimidating. Fundera provides a one-stop clearinghouse format where small business owners can apply for multiple loans through one set of application questions, as well as see which types of loans are likely to be available and appropriate for their needs. In addition, Fundera regularly publishes resources that include guidance on how the owner’s personal credit score affects borrowing and managing personal and business credit and finances. Likewise, Nav has both a website and mobile app with free access to personal and business credit scores and background on what lenders consider in extending credit to a small business.
Plan for personal and business volatility

**Solution: Offer business and personal financial planning assistance**

For some nonprofits, the connections between personal financial health, business success, and social impact are intertwined and addressed every day. **Start Small Think Big** is a nonprofit with offices in New York City and Oakland, where they provide legal, financial, and marketing services designed to enhance the effectiveness and growth potential of underresourced small businesses. Financial programming includes a focus on business planning anchored in bookkeeping and financial management fundamentals, such as separating personal and business expenses, tax planning, budgeting, and balance sheet management and projections. Start Small measures program success in terms of entrepreneurs’ progress toward goals such as credit readiness, business profitability that fully meets owners’ household income requirements, and building a path to long-term business sustainability and personal financial security.

In addition to running in-person entrepreneurship training programs, the nonprofit **Centro Community Partners** has developed a mobile app to help low-income, minority, and female small business owners navigate the business planning process and access capital. The app poses clear questions to solicit necessary information and seed business planning education for small business owners without prior formal business planning experience. The app brings the essentials of a more intensive coaching program, including personal finance and business finance modules, to a scalable and cost-effective format. The app has even been translated into multiple languages, including Spanish, to serve more entrepreneurs. It can be used on its own, or to prepare for training with Centro.

**Targeted Solution: Tailor programs to specific segments**

While the foundations of small business owner financial health are consistent across populations, service design and delivery may differ to serve a specific community of entrepreneurs best. Tailored solutions recognize and address the personal financial health needs of underserved entrepreneurs, along with specific issues that have been barriers to success with traditional services. A prime example is the **National Association of Latino Asset Building (NALCAB)**’s Blueprint for Culturally-Related Small Business Development. This guide features a number of “ready to use” tools used by organizations serving Latino and immigrant entrepreneurs, as well as links to culturally relevant curricula. These tools include a financial capability assessment developed by nonprofit **Mission Economic Development Agency (MEDA)** to encourage personal financial capability programming within small business development programs.

Recognizing the racial wealth gap, **The Runway Project’s Oakland program** brings together many partners to get startup capital into the hands of black entrepreneurs. Conceived by Jessica Norwood of The Runway Project, this program aims to address the gap in seed funding for black entrepreneurs who are less likely to have access to startup capital from friends and family. These loans are designed to provide small business funding for early-stage entrepreneurs of color who have received training and technical support through **Uptima Business Bootcamp**, a member-owned business accelerator. The funds for the loans are from investors in the five-year Friends & Family CD offered through **Self-Help Federal Credit Union**.
CONCLUSION

When business owners have a strong personal financial foundation – and systems in place to maintain it – they are better equipped to meet their overall goals.

Our research found that providers – both nonprofit and for-profit – are aware of the connections between the small business owner’s personal finances and business finances. Yet addressing the financial health needs of entrepreneurs is harder, and the available solutions are far from reaching the necessary scale. Nonprofits are leading the way, drawing on client relationships that allow a first-hand look at the challenges of underserved entrepreneurs and their communities, yet they struggle for funding and scale. For-profit providers, with potential for scale through their technology infrastructure and existing distribution channels, have an opportunity to reach millions who could benefit from products and services that support their financial health and allow them to pursue their goals. Yet it is challenging for for-profit providers to deliver impactful services in a cost-effective manner.

Additionally, nonprofit funders, and those invested in the vitality of households and small businesses, can further support efforts to meet underserved entrepreneurs’ needs – especially in ambitious and innovative ways. Scaling the distribution of personal financial health services for small business owners may require partnerships, either among nonprofits and for-profits or across nonprofit providers. We see this in practice in efforts to scale access to capital for underserved small business through myWay to Credit and Connect2Capital – technology-driven platforms that connect small businesses with nonprofit providers online. Creative partnerships across providers, such as those brought together for The Runway Project’s Friends & Family CD, are difficult to broker but bring new stakeholders to the table. CFSI’s FinTech and Nonprofit Partnerships working group seeks to facilitate innovative partnerships, pilot product delivery, and disseminate best practices for successful cross-sector partnerships.

Finally, we need more research on the impact of products and services on small business owner financial health and the connections to their business outcomes. Our research suggests that when business owners have a strong personal financial foundation – and systems in place to maintain it – they are better equipped to meet their overall goals. Through further research into which solutions have the greatest positive impact on both the owner and their business, we can empower more small business owners with products and services that support the person, the household, and the business.
Interviewees and Reviewers

Kyle Johnson, Director, Community Lending, Accion Chicago
Joyce Klein, Director, Aspen FIELD
Tammy Halevy, Senior Vice President, New Initiatives, Association for Enterprise Opportunity (AEO)
Sean Salas, CEO & Co-Founder, Camino Financial
Arturo A. Noriega, Founder & Executive Director, Centro Community Partners
Joanna Trotter, Senior Program Officer, The Chicago Community Trust
Aarti Kotak, Deputy Chief of Staff for Neighborhood Economic Development, City of Chicago
Ray Waters, President, Detroit Development Fund
Meera Sridharan, Director, Small Business, Discover Financial Services
Rajitha Swaminathan, Director of Programs, Grameen America
Suneet Lad, Chief Operating Officer, The Hatchery
Jon Vosper, Technical Advisor, and Kasra Movahedi, Director, International Rescue Committee (IRC)
Stephanie Mestrallet, Vice President, JPMorgan Chase Foundation EMEA
Laura Zellmeister, Analyst, JPMorgan Chase Foundation LATAM
Steve Wanta, Cofounder & CEO, JUST
Celina Peña, Chief Program Officer, LiftFund
Carolyn Karo, Director of Strategic Initiatives, Milken Institute California Center
Elena Fairley, Director of Partner Management, Mission Asset Fund
Alicia Espinosa, Director, Empresarias del Futuro, Mujeres Latinas en Acción
Holly Frindell, Associate Director, National Association for Latino Community Asset Builders (NALCAB)
Dana Dolan, Interim Chief Communications Officer; Jeff Faulkner, Acting President & CEO; and Barry Coleman, VP, Counseling and Education Programs, National Foundation for Credit Counseling
Michael Reiff, Vice President, Product Management, NetSpend
Elina Tatis, Senior Program Officer, and Nicole Perry, Deputy Commissioner, NYC Office of Financial Empowerment
Eric Weaver, Founder and Senior Advisor, Opportunity Fund
Jay Savulich, Chief Operations Officer, Rising Tide Capital
Annie McShiras, Investment Associate, and Brian Jones, Manager, Special Projects, Self-Help Federal Credit Union
Jennifer DaSilva, Founder & Executive Director, Start Small Think Big
Chiara Passerini, Consultant, Urbane Development
Wendy Baumann, President & CVO, Wisconsin Women's Business Initiative Corporation (WWBIC)