FINANCIAL INFRASTRUCTURE AND SMALL BUSINESS FUNDING IN LOW- AND MODERATE-INCOME NEIGHBORHOODS IN DETROIT

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The views expressed are the authors’ and do not necessarily reflect the views of the Federal Reserve Bank of Chicago or the Board of Governors of the Federal Reserve System.
• A consensus to expand the economic vision of the region to include small business development

• Access to capital is important to foster entrepreneurship and economic diversity

• Detroit has far fewer banks per capita than other former industrial cities with declining populations

“...if southeast Michigan is going to move to a more innovative economy, [it] must restore the structures and resources necessary for a robust entrepreneurial eco-system.”

-The New Economy Initiative
• Aim at deepening our understanding of the economic and small business climate in Detroit

• Examine the data around access to financial services through a study of banking infrastructure and location of bank branches

• Examine the data around access to business credit and identify gaps and lending opportunities for financial institutions
FINDINGS
THE BUSINESS CLIMATE

– Growth in population in select areas

– Business start-ups in the city of Detroit increased during the 2000s

– The total number of small businesses (<$1 million revenue) increased across neighborhoods
FINDINGS
THE FINANCIAL INFRASTRUCTURE

• The locus of ownership and control has changed almost entirely from in-market institutions to out-of-market institutions in the past 15 years

• Low- and moderate-income and minority census tracts in the city of Detroit have a lower branch per capita rate than those in the surrounding counties

• All census tracts in Detroit are within the range of distance for potential relationship lending to take place. All census tracts have at least 1 bank within 5 miles
FINDINGS
BUSINESS LENDING

• Smaller businesses, especially those that are in the city, have faced the steepest cuts in lending over the second half of the 2000s

• Factors that influence Lending:
  • Bank presence and access to banks does indeed explain, in part, the extent to which small businesses lending occurs in LMI neighborhoods
THE CASE STUDY
THE CITY OF DETROIT AND SURROUNDING 3 COUNTIES
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SMALL BUSINESS GROWTH
SOLE PROPRIETARY AND EMPLOYER BUSINESSES

Chart 2.7
Number of Sole Proprietary
Detroit MSA

Chart 2.8
Number of Employer Businesses
Detroit MSA
SMALL BUSINESS GROWTH
REVENUE CATEGORIES

Source: Dunn and Bradstreet.
Note: Businesses here are those with 500 employees or less
SMALL BUSINESS GROWTH
NEW AND TOTAL BUSINESSES

Chart 2.13

City of Detroit Businesses, 2010

Chart 2.14

Surrounding Counties Businesses, 2010
CHALLENGES FOR SMALL BUSINESSES

- New business start ups
- Growth only in sole proprietary
- Growth in smaller size/lower revenue businesses

- Very likely liquidity constrained
- Should need help in assessing credit market
- Can benefit from relationship lending
THE BANKING INFRASTRUCTURE
BANK ACCESS WITHIN 5 MILES, 1994, 2010

Bank Access\textsubscript{i} = \ln \left( 1 + \sum_{k=1}^{n} \frac{1}{\max(1, D_{i,k})} \right)
MAKING THE CONNECTION

• Leveraging financial resources to meet the needs of small businesses in Detroit

• Where we go from here