



MONEY

'Almost impossible': Latinos open businesses faster than any other group but face hurdles



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After years working for other firms, Chris Rourk decided to start a business of his own producing wireless jacks. But when the Latino entrepreneur approached banks for a loan, he was turned away.

“It was almost impossible to get any sort of funding ... no matter what my credit status was,” says Rourk.

He used personal credit cards to launch his Miami-based company, VOLTA ion, in 2018, and Rourk found that many of his Latino customers had similar experiences when applying for loans. While there may have also been other factors, he believes lenders often set a higher bar for him because of his ethnicity.

“I know my Latino customers did have a hard time getting ...funding,” says Rourk, 50, “and they had great products.”

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Latino entrepreneurs launch more businesses than any other group in the U.S., but they close their doors at a faster rate than their white peers as they struggle to get traditional loans, deal with lower sales, and navigate other obstacles according to "The Economic State of Latinos in America: The American Dream Deferred," a recent report by McKinsey & Company.

The 322,000 businesses in the U.S. owned by Latino entrepreneurs provide jobs to 2.9 million workers, and 85% of those business owners say it was opportunity, not need, that led them to become their own boss, according to the report.

But Latino-owned businesses with at least one employee average \$1.3 million in sales each year, roughly half the \$2.5 million earned by their white counterparts.

And the COVID-19 pandemic, which led to disproportionately higher rates of unemployment and death for Latinos, Black and Indigenous Americans, also negatively affected 86% of Latino-owned businesses.

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"I think that COVID pulled the curtain and forced us to look straight in the eye at the issues and disparities and structural racism that we have been talking about for years," says Frankie Miranda, president and CEO of Hispanic Federation, a national nonprofit that focuses on empowering the Hispanic community and strengthening Latino-owned small businesses and other institutions. "We need to ensure we have a fair and equitable recovery."

Loans are harder to get

The number of Latino-owned businesses with at least one employee other than the founder has increased 12.5% a year compared with the 5.3% yearly growth rate among businesses owned by non-Latino whites, McKinsey & Company said. And roughly 6% of U.S. businesses with at least one staffer are owned by Latino entrepreneurs.

However, Latinos make up roughly 18% of people in the U.S. If their level of business ownership matched their percentage of the population, the report says, the U.S. could have another 735,000 businesses, providing 6.6 million new jobs, and producing an additional \$2.3 trillion in revenue if sales matched those of their white peers.

But getting the financing that can start, grow and sustain a business is more difficult for Latino entrepreneurs. Despite comparable credit ratings, 12% of Latino business owners got traditional loans to launch their businesses compared with 17% of their white counterparts, the report found.

Only 35% of Latino business owners who are approved for loans get all the money they apply for compared with 49% of their white peers – 26% of Latino entrepreneurs believe their ethnicity is a reason they don't get financing.

Forced to tap their own savings

Whether it's from the government or a bank, Latino small-business owners apply for funding "at a higher rate than white business owners and yet receive that funding at a lower rate," says Bridget Weston, CEO of SCORE, a national network of professional mentors who voluntarily work with small businesses. "This challenge then leads to other challenges of situating the business and making sure they're able to meet the needs of their customers."

Without traditional bank loans, Latino entrepreneurs often tap their savings, credit cards or seek crowdfunding to stay afloat, moves that put them at personal financial

risk and leave them vulnerable to predatory lenders, business people, researchers and advocates say.

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Among new Latino entrepreneurs, 72% used family savings to start their businesses. And almost 13% of Latino-owned businesses close during their first year, versus 10% of those owned by whites, McKinsey says.

Rourk tapped his personal savings to develop the jack technology that is the foundation of his company. When he then tried to get a bank loan to start production, he found himself caught in a Catch-22.

A vicious cycle

"Banks said that because I had no production, they could not lend me the money to get started," he says. "Then I went back to the banks, showing production, and they told me they could not loan me the money because I had credit card debt which was used to start the business because they didn't help me at the beginning."

Rourk has heard similar stories from other Latino entrepreneurs. They're denied loans because their business is new or doesn't show sufficient profits, and are rejected again when they take on personal debt to get their businesses off the ground.

"It's like a vicious cycle," he says.

Eventually, Rourk was able to connect with a mentor at SCORE who helped him polish his business plan and connect with additional lenders. Last year, Rourk got a \$75,000 loan from the Miami Bayside Foundation, a nonprofit group that supports minority businesses.

Mentorship can be key

Latino business owners are more likely to lean on family members for business advice than to seek out a professional mentor the McKinsey report says.

But, like Rourk, Jackie Mendive, 51, turned to SCORE for guidance when she decided to launch an empanada business.

The organization helped her develop the LLC for Empanadas on the Go which she opened in 2017. Starting initially with a commercial kitchen she used every other week, Mendive didn't need or seek bank financing. And the Stamford, Connecticut-based business, which is now operating full time, continues to sustain itself financially.

But Mendive, who is originally from Argentina, doesn't think being Latina would necessarily make it harder for her to get a bank loan.

"I think as a minority (it) is actually in some ways helpful nowadays," she says, "because everyone is trying to push for women, to push for diversity."

'Only one way to go - forward'

The COVID 19 crisis highlighted a disconnect between banks and the Latino community, when many entrepreneurs of color were left out of the initial round of federal loans designed to help businesses survive shutdowns spurred by the pandemic.

"We saw it over and over with the businesses we were working with, that they were not able to even get a call back from some lenders when they were trying to put in applications," says Miranda of the Hispanic Federation. "Lending institutions were not prepared to serve the neediest."

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In the wake of the massive protests sparked by the killings of George Floyd, Breonna Taylor and other Black Americans by police, some banks said they'd take concrete steps to narrow the racial wealth gap.

In October, 2020, for instance, JP Morgan Chase committed \$30 billion over five years to an initiative that includes offering \$2 billion in loans to businesses in largely Black and Latino neighborhoods. The bank also said it would provide those ventures with technical assistance and coaching, and it planned to spend \$750 million with Black and Latino vendors.

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The McKinsey report said Latino-owned businesses could get a significant boost if banks, venture capital firms and other investors make it easier for them to obtain funding. Greater mentorship could also help new businesses thrive, the report said.

Miranda said tracking lending decisions by banks, and having those institutions partner with community organizations could also lead to better support for Latino-owned ventures.

Rourk, whose company has an all-Latino team, says he's been dutifully paying back his loan and he will be seeking additional funding to build up inventory.

"Are we going to be successful?" he says. "We don't have another option. I tell people who work for me we have only one way to go, and that's forward."

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