

FINANCING THEIR FUTURE: Veteran Entrepreneurs and Capital Access



U.S. Small Business
Administration

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INTRODUCTION

For decades, military veterans have been a vital part of the nation’s business sector—leveraging the valuable skills they gained during their service to start businesses across the country. However, veteran entrepreneurship is facing a generational decline, with younger veterans owning businesses at lower rates compared to past generations. Furthermore, we are now beginning to see veterans owning businesses at lower rates compared to nonveterans.

Part of the US Small Business Administration's mission is to facilitate a successful transition to civilian life for military veterans. Understanding the current state of veteran entrepreneurship, in particular the type of challenges veterans face in starting and growing businesses, is fundamental to fulfilling this responsibility. The US Small Business Administration’s Office of Veteran Business Development (OVBD)¹ has partnered with the Federal Reserve Bank of New York to examine veteran business financing, which is critically tied to their performance and growth.

Of particular concern for policy makers is whether veterans have a more difficult time accessing capital than nonveteran business owners. In order to substantiate policy intervention on behalf of veteran entrepreneurs, it is necessary to size the market and understand the needs and challenges. While anecdotal evidence points to capital access challenges, systematic data collection has been limited. This paper first outlines current literature on veteran entrepreneurship, and then presents new small business credit data from the Federal Reserve Banks’ Small Business Credit Survey. The data, for the first time, provide substantial evidence that veteran-owned businesses face greater difficulty in accessing capital relative to nonveteran-owned businesses.

¹ For more information on SBA veteran programs, visit <https://www.sba.gov/offices/headquarters/ovbd>.

DECLINING RATE OF VETERAN ENTREPRENEURSHIP

It has often been noted that the experiences and skills gained from military service can prepare individuals to become successful entrepreneurs. In fact, many military veteran entrepreneurs often credit skills gained during their service for helping them to own and manage a business. In a series of interviews with veteran entrepreneurs conducted by the Institute of Veteran Military Families (IVMF) at Syracuse University,² “an overwhelming majority” listed skills acquired or enhanced during military service that helped them as business owners. The top skills included teamwork, leadership and management skills, work ethic/self-discipline, perseverance, and crisis management. Moreover, there is evidence that military service can influence the desire to pursue entrepreneurship, as 36 percent of the veteran entrepreneur respondents reported that they were not interested in entrepreneurship before their military service.

For decades, these skills manifested in strong entrepreneurial rates among veterans. A study conducted by the SBA’s Office of Advocacy in 2011 found that “military service is highly correlated with self-employment probability,” and that “veterans are at least 45 percent more likely than those with no active-duty military experience to be self-employed.”³ This economic engine for the US cannot be overstated; in 2012, there were 2.5 million veteran-owned businesses generating \$1.1 trillion in sales and \$195 billion in annual payroll.⁴

However, even in 2011, the SBA study noted a decline in veteran entrepreneurial activity. “The cohort of veterans who served in World War II, the Korean War, and the Vietnam War era were more likely to be self-employed relative to veterans serving since 2001, or Gulf War veterans.”⁵ An obvious factor here is age; as noted by a 2016 US Bureau of Labor Statistics report, “the higher rate of self-employment among veterans also partially reflects the older age profile of veterans: 40 percent of employed veterans were aged 55 years and older, compared with 21 percent of non-veterans. Older workers are more likely to be self-employed than younger workers.”⁶ Furthermore, given that veterans are older, we would naturally expect to see fewer veteran entrepreneurs as more veterans age out of the workforce. As such, the Kauffman Foundation noted that the share of all *new entrepreneurs*⁷ represented by veterans “was 12.3 percent in 1996 but had steadily declined to 5.6 percent by 2014, and that most of the decline was due to the declining share of veterans in the US working-age population.”⁸

2 Nyasha Y Boldon and Rosalinda V. Maury. 2017. Bridging the Gap: Motivations, Challenges, and Successes of Veteran Entrepreneurs.

3 John Hope, Brian Oh, and Patrick Mackin, 2011; Factors Affecting Entrepreneurship among Veterans. <http://www.sba.gov/advocacy/7540/15428>.

4 Joseph Sobota. 2017; Veteran-owned Businesses and Their Owners. <https://www.sba.gov/sites/default/files/advocacy/435-veteran-owned-businesses-report.pdf>.

5 John Hope, Brian Oh, and Patrick Mackin, 2011; Factors Affecting Entrepreneurship among Veterans. <http://www.sba.gov/advocacy/7540/15428>.

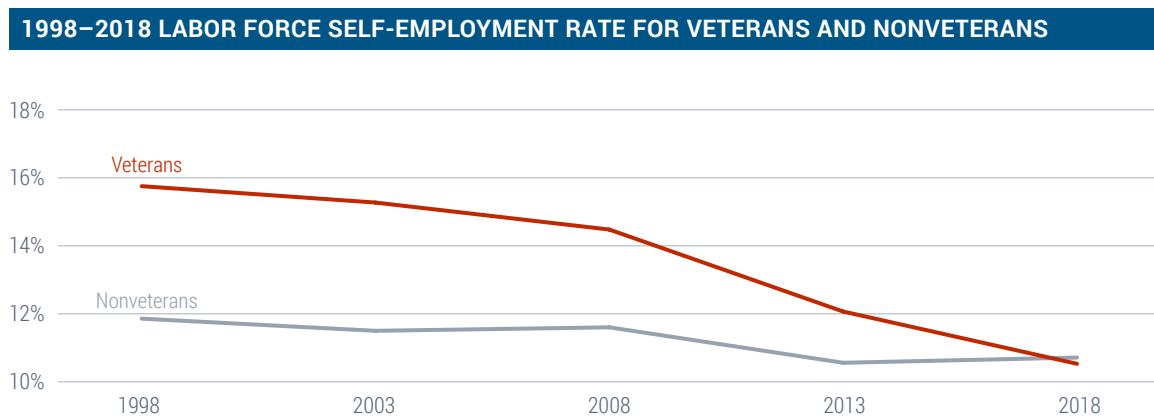
6 Steven F. Hipple and Laurel A. Hammon, 2016; Self-employment In The United States.

7 Kauffman’s Rate of New Entrepreneurs in the economy. Kauffman calculated the percentage of adults becoming entrepreneurs in a given month from CPS surveys.

8 Robert W. Fairlie and Arnobio Morelix, 2015; The Kauffman Index startup activity.

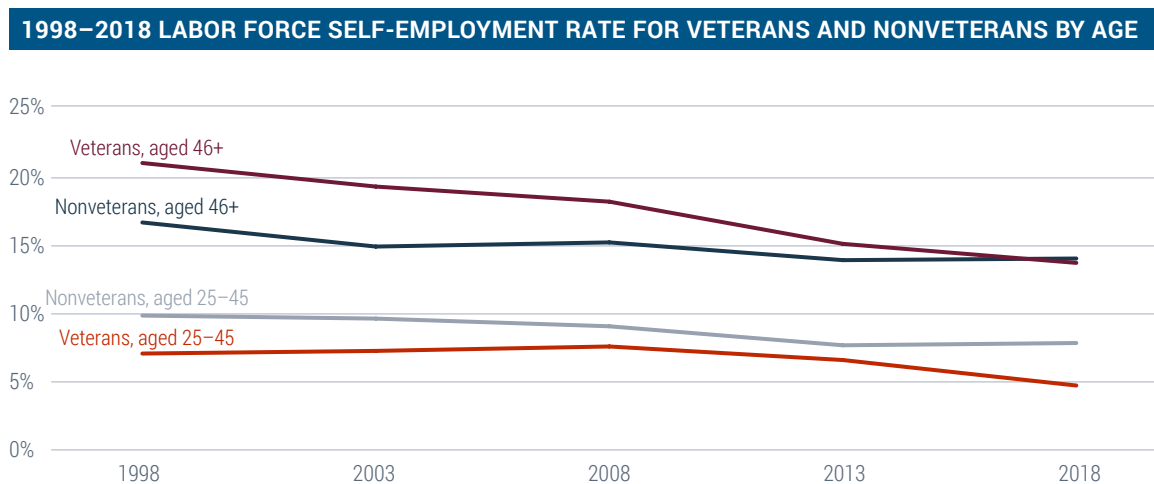
While age is undoubtedly affecting the number of veteran entrepreneurs, we are also observing declining *rates* of entrepreneurship among veterans in the labor force, as well as lower rates of entrepreneurship for veterans compared to nonveterans. In 1998, 16 percent of veterans in the labor force were “self-employed,” compared with 12 percent of nonveterans.⁹ In 2018, that same rate had declined to 11 percent for both veterans and nonveterans (a 33 percent drop for veterans compared to a 9 percent drop for nonveterans).¹⁰ In other words, we no longer see veterans being more entrepreneurial than nonveterans as we had seen in prior generations. The difference is even more pronounced when looking at veterans by age group. In 2018, both veterans and nonveterans in the labor force above the age of 45 had a self-employment rate of 14 percent. However, veterans aged 25 to 45 in the labor force had a lower rate of entrepreneurship compared to the same age group of nonveterans (5 percent compared 8 percent; see Figures 1A and 1B).

FIGURE 1A



Source: 1998, 2003, 2008, 2013, 2018 Current Population Surveys for May, US Census Bureau.

FIGURE 1B



Source: 1998, 2003, 2008, 2013, 2018 Current Population Surveys for May, US Census Bureau.

9 May 1998 Current Population Survey.

10 May 2018 Current Population Survey.

In addition to lower entrepreneurial rates, we also see evidence of lower business *performance* for veteran business owners. For both veteran and nonveteran business owners, the vast majority of employer businesses¹¹ have one to four employees (see Table 1A). However, veteran-owned businesses of this size have 16 percent lower average sales per firm compared to nonveteran-owned businesses (see Table 1B). This difference holds when controlling for industry; within most industries, we observe veteran-owned businesses of this size underperforming nonveteran-owned businesses in average sales per firm (see Table 1C). Interestingly, across larger-sized businesses (as measured by number of employees), we see veteran-owned businesses outperforming nonveteran-owned businesses in average sales per firm (see Table 1B). Given that smaller firms tend to be younger, it may be the case that new veterans are having a harder time with their businesses and are no longer having the outsized entrepreneurial success that past generations of veterans had.

TABLE 1A

SHARE OF VETERAN- AND NONVETERAN-OWNED BUSINESSES BY SIZE OF FIRM		
Number of employees	Veteran-owned	Nonveteran-owned
1 to 4	60.3%	57.6%
5 to 9	19.0%	19.5%
10 to 19	10.8%	12.1%
20 to 49	6.6%	7.5%
50 to 99	1.9%	2.0%
100 to 499	1.4%	1.1%
500+	0.2%	0.1%

Percentages reflect the share of employer firms.

Source: 2016 Annual Survey of Entrepreneurs, US Census Bureau. Nonveteran-owned businesses include businesses owned equally by veterans and nonveterans.

TABLE 1B

AVERAGE SALES PER FIRM FOR VETERAN- AND NONVETERAN-OWNED BUSINESSES BY SIZE OF FIRM			
Number of employees	Veteran-owned	Nonveteran-owned	% Difference
1 to 4	\$340,223	\$403,590	-16%
5 to 9	\$1,056,607	\$1,075,352	-2%
10 to 19	\$2,473,794	\$2,153,203	15%
20 to 49	\$6,024,785	\$5,384,430	12%
50 to 99	\$17,261,720	\$14,142,179	22%
100 to 499	\$49,947,077	\$47,604,144	5%
500+	\$348,307,808	\$339,711,729	3%

Source: 2016 Annual Survey of Entrepreneurs, US Census Bureau. Nonveteran-owned businesses include businesses owned equally by veterans and nonveterans.

11 Businesses with hired employees.

TABLE 1C

AVERAGE SALES PER FIRM FOR VETERAN- AND NONVETERAN-OWNED BUSINESSES WITH 1 TO 4 EMPLOYEES BY INDUSTRY			
Industry	Veteran-owned	Nonveteran-owned	% Difference
Professional, scientific, and technical services	\$248,455	\$282,941	-12%
Construction	\$331,947	\$396,769	-16%
Health care and social assistance	\$283,345	\$288,334	-2%
Retail trade	\$528,628	\$597,652	-12%
Finance and insurance	\$251,239	\$305,165	-18%
Other services (except public administration)	\$215,431	\$196,560	10%
Real estate and rental and leasing	\$354,730	\$362,494	-2%
Wholesale trade	\$1,391,796	\$1,576,565	-12%
Administrative, support, waste management & remediation services	\$189,040	\$223,497	-15%
Manufacturing	\$377,232	\$378,651	0%
Transportation and warehousing	\$293,783	\$332,021	-12%
Accommodation and food services	\$178,825	\$193,696	-8%
Arts, entertainment, and recreation	\$268,884	\$434,460	-38%
Information	\$334,033	\$350,078	-5%
Educational services	\$157,563	\$180,912	-13%
Mining, quarrying, and oil and gas extraction	\$594,517	\$573,305	4%
Agriculture, forestry, fishing, and hunting	\$331,044	\$474,288	-30%
Management of companies and enterprises	\$278,968	\$1,002,624	-72%
Utilities	Not disclosed	\$719,195	N/A

Table sorted by the number of veteran-owned firms in each industry.

Source: 2012 Survey of Business Owners, US Census Bureau (sales/receipts data not disclosed by industry and veteran status of owner in the Annual Survey of Entrepreneurs). Nonveteran-owned business owners include businesses owned equally by veterans and nonveterans.

POTENTIAL DRIVERS OF DECLINING VETERAN ENTREPRENEURSHIP

Employment opportunities and networks

Improvements in the unemployment rate for young veterans over the last decade,¹² possibly aided by major corporate initiatives to hire more veterans,¹³ could be playing a role in the declining rates of veteran entrepreneurship, as more veterans seek to work for companies. However, a recent study¹⁴ on veteran employment found that veterans were more likely to be underemployed¹⁵ than nonveterans. Furthermore, we still see evidence of strong demand for veterans to start businesses, as 22 to 25 percent of transitioning veterans indicate that they would like to start businesses.¹⁶ Veterans most frequently cite “dissatisfaction with the civilian workforce due to disorganization and limited opportunities to showcase skills” and “business opportunities where they can forge their own path”¹⁷ as motivations to engage in entrepreneurial activity.

In the interviews with veteran entrepreneurs conducted by the IVMF¹⁸ mentioned earlier in this paper, 75 percent of the veteran entrepreneur respondents reported encountering challenges as they were starting and growing their business. One of the most common reasons cited was social capital. Social capital in the form of networks and mentorships can be vital for entrepreneurial success; “whether that means gaining investors, recruiting experts, or building your team.”¹⁹

Entrepreneurs with strong social capital tend to outperform those with weak or underutilized social capital.²⁰ Yet, 50 percent of veterans relocate to a city other than their hometown after their military service,²¹ which may put a strain on strengthening existing networks and/or building new ones. While these moves can lead to better opportunities, they can also leave veterans with reduced access to the relationships needed to build their networks and contribute to entrepreneurial success.

12 Based on authors' calculations from 1-Year American Community Survey estimates of 18 to 34 year-olds. From 2007 to 2017, the unemployment rate for young veterans declined 19.9 percent, while the unemployment rate for young nonveterans declined 16.3 percent in the same time period.

13 There are many corporate initiatives to hire more veterans. Examples include The Walt Disney Company's Heroes Work Here (HWH) initiative, JP Morgan Chase's Military and Veterans program, and Starbucks' "Military Family Stores."

14 Cathy Barrera and Phillip Carter. 2017. Challenges on the Home Front: Underemployment Hits Veterans Hard.

15 A new measure of underemployment was developed for this study that employs the O*NET taxonomy of jobs' skill levels to compare individuals' most recent position with their highest level of education.

16 Waldman Associates, "Entrepreneurship and Business Ownership in the Veteran Population," 2004; Bunker Labs, "Survey of Chicago Area Veterans Leadership Council Members," 2014.

17 Nyasha Y Boldon and Rosalinda V. Maury. 2017. Bridging the Gap: Motivations, Challenges, and Successes of Veteran Entrepreneurs.

18 Nyasha Y Boldon and Rosalinda V. Maury. 2017. Bridging the Gap: Motivations, Challenges, and Successes of Veteran Entrepreneurs.

19 Cancialosi, 2014. Forbes: 4 reasons social capital trumps all.

20 Bauernschuster, S., Falck, O., & Heblich, S. (2010). Social capital access and entrepreneurship. *Journal of Economic Behavior & Organization*, 76(3), 821-833. doi:10.1016/j.jebo.2010.09.014.

21 Blue Star Families, Department of Research and Policy (September, 2014) 2014 Military Family Lifestyle Survey: Findings and Analysis. Washington, DC. Available at <https://ivmf.syracuse.edu/wp-content/uploads/2016/06/BSFReportComprehensiveReport.pdf>.

Access to capital

Of particular interest to policy makers is the idea that veterans face greater difficulty accessing capital relative to nonveterans. In the same IVMF study,²² veterans also cited accessing capital as a top challenge in starting and growing a business. However, capital access may be a challenge for all entrepreneurs. To date, there has been minimal investigation into business financing for veterans compared to nonveterans, largely due to a lack of data. While there is plenty of anecdotal evidence to suggest veterans have difficulty accessing capital, there has been little-to-no data that has examined veteran business financing relative to nonveterans.

Fortunately, the Federal Reserve Banks' Small Business Credit Survey (SBCS) tracks veteran status, so we are able to analyze the credit experiences for both veteran and nonveteran business owners. This survey data is the most substantial data comparing veteran and nonveteran business borrowers to date and, for the first time, provides considerable evidence that veteran business owners face more difficulty in accessing capital than nonveteran business owners.

22 Nyasha Y Boldon and Rosalinda V. Maury. 2017. Bridging the Gap: Motivations, Challenges, and Successes of Veteran Entrepreneurs.

ABOUT THE FEDERAL RESERVE BANKS' SMALL BUSINESS CREDIT SURVEY (SBCS)²³

The SBCS is an annual survey of firms with fewer than 500 employees. These types of firms represent 99.7% of all employer establishments in the United States.²⁴ Respondents are asked to report information about their business performance, financing needs and choices, and borrowing experiences. The SBCS is not a random sample, so the data are weighted to reflect the national distribution of small businesses by industry, age of firm, number of employees, geographic location, gender of owner(s), and race/ethnicity of owner(s). Still, care should be taken when interpreting the results, as the data are not weighted by veteran status of owner(s).²⁵

The SBCS data presented in this paper reflect the experiences of veteran-owned small employer firms²⁶ (hereafter, “veteran-owned businesses”) and nonveteran-owned small employer firms (hereafter, “nonveteran-owned businesses”). A business is considered to be veteran-owned if more than 50 percent of the business is owned by a veteran. Therefore, nonveteran-owned businesses also include businesses owned equally by veterans and nonveterans.

23 2017 Small Business Credit Survey, Federal Reserve Banks. Data represent small employer firms, and all percentages are weighted to reflect the national distribution of small employer firms by industry, age of firm, number of employees, geographic location, gender of owner(s), and race/ethnicity of owner(s).

24 SBA Office of Advocacy. 2017. Frequently Asked Questions About Small Business. <https://www.sba.gov/sites/default/files/advocacy/SB-FAQ-2017-WEB.pdf>.

25 For more information about the Small Business Credit Survey, see <https://www.fedsmallbusiness.org/survey>.

26 Small employer firms have between one and 499 paid employees in addition to the owner(s).

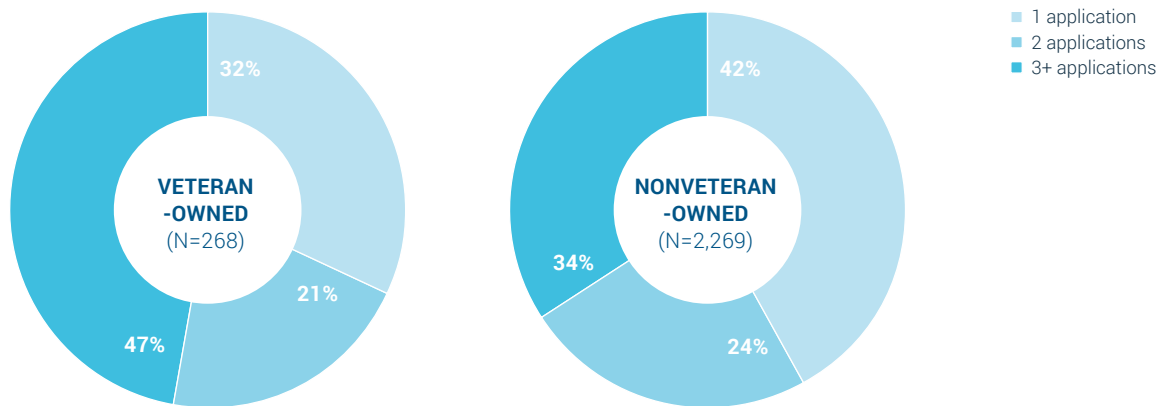
DEMAND FOR AND AVAILABILITY OF FINANCING

Demand for financing is similar for veteran- and nonveteran-owned businesses: 42 percent of veteran-owned businesses reported that they applied for financing in the prior 12 months,²⁷ compared to 40 percent of nonveteran-owned businesses. Looking closer at loans, lines of credit, and cash advances (the most popular business financing products), veteran-owned businesses that applied for these products submitted a larger number of applications for them compared to their nonveteran-owned counterparts (see Figure 2). Veteran-owned businesses also submitted more applications to the major lending sources (i.e. large banks, small banks, and online lenders; see Figure 3).

FIGURE 2

NUMBER OF LOAN, LINE OF CREDIT, AND CASH ADVANCE APPLICATIONS SUBMITTED

(% of loan/line of credit and cash advance applicants)



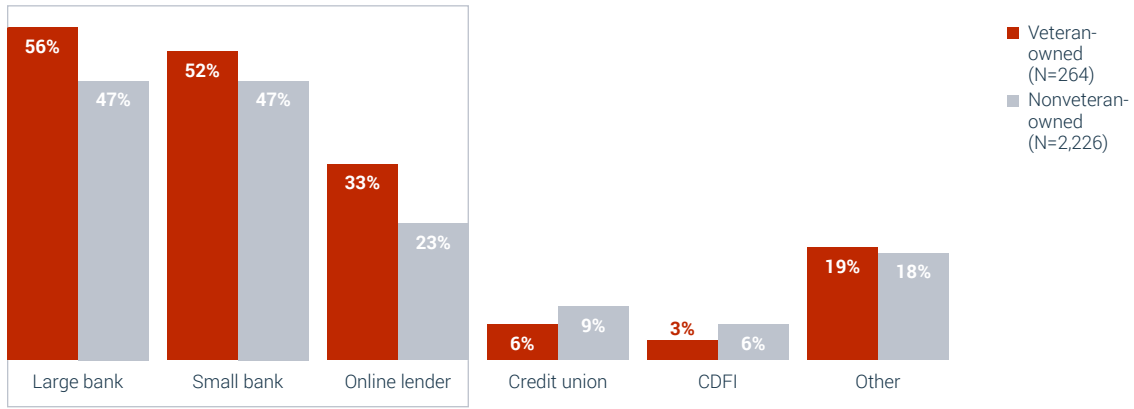
Source: 2017 Small Business Credit Survey, Federal Reserve Banks.

27 Approximately 2016 Q4 through 2017 Q4.

FIGURE 3

CREDIT SOURCES APPLIED TO

(% of loan/line of credit and cash advance applicants)



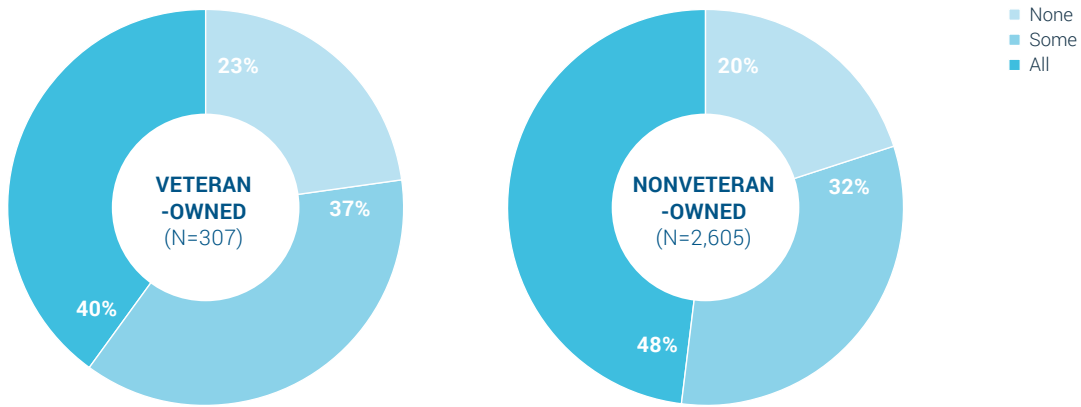
Respondents could select multiple options.
 Source: 2017 Small Business Credit Survey, Federal Reserve Banks.

Despite similar demand for financing and veterans often submitting more applications when they did apply, 60 percent of veteran-owned businesses reported a financing shortfall (obtaining less financing than requested), compared to 52 percent of nonveteran-owned businesses (see Figure 4).

FIGURE 4

AMOUNT OF FINANCING RECEIVED

(% of applicants)



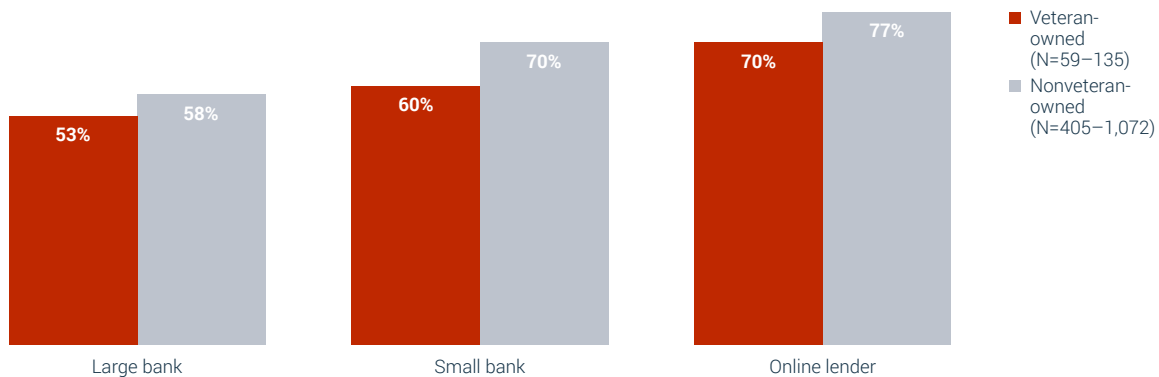
Source: 2017 Small Business Credit Survey, Federal Reserve Banks.

Veteran-owned businesses also saw lower approval rates across the top three sources of credit; their loan approval rates from all three sources were approximately 10 percent lower than those for nonveteran-owned businesses. These lower approvals suggest that veteran business borrowers face financing challenges irrespective of lending source (see Figure 5).

FIGURE 5

APPROVAL RATE BY SOURCE OF LOAN, LINE OF CREDIT, OR CASH ADVANCE

(% of loan/line of credit and cash advance applicants that applied to each lender)



Source: 2017 Small Business Credit Survey, Federal Reserve Banks.

This evidence of financing shortfalls ties with evidence observed through SBA-guaranteed loan data.²⁸ In fiscal year 2017, SBA loan guarantee programs supported approximately \$30B in new loans to small businesses.²⁹ Given the size and scope of the SBA loan programs, they are a reasonably good indicator of lending trends in the overall economy. The loan data show that veteran-owned business financing growth is not keeping up with that of nonveteran-owned business financing. During the economic recovery between 2010 and 2017, SBA-guaranteed loans increased 82 percent to nonveteran borrowers, but only 48 percent for veteran borrowers³⁰ (see Figure 6).

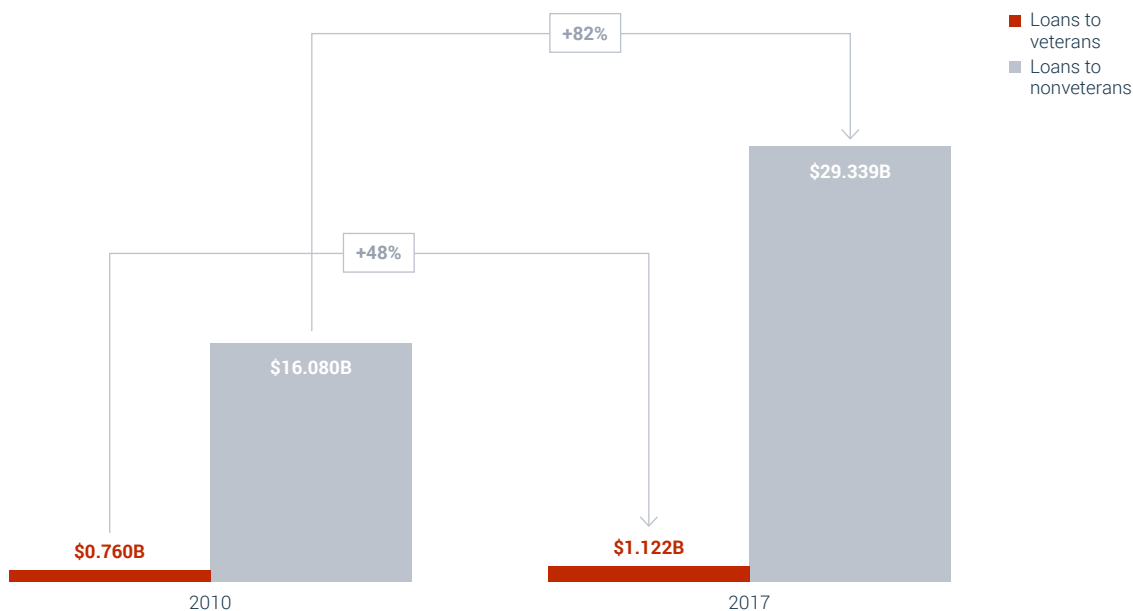
28 The SBA does not provide direct loans, but loan guarantees. Direct loans are made at the discretion of lenders, who then pay a fee for the SBA guarantee. For more information on SBA loan programs, visit <https://www.sba.gov>.

29 2017. SBA Lending Activity in FY17 Shows Consistent Growth; Small businesses are defined by SBA's size standards. See: <https://www.sba.gov/document/support-table-size-standards>.

30 SBA demographic lending data is completely self-reported by the lenders (i.e. they report how much they lent to veterans and nonveterans).

FIGURE 6

SBA-GUARANTEED LOAN GROWTH, 2010-2017



Dollar values are based on the fiscal year and are not inflation-adjusted.

Source: Internal SBA data as reported by lenders.

The slower growth in SBA-backed loans to veterans is surprising given that the SBA offers certain fee-relief programs to lenders³¹ for loans to veterans,³² as well as entrepreneurial education and training programs to transitioning veterans.³³ It is ultimately unclear whether the slower growth in SBA-backed loans to veterans compared to nonveterans is demand- or supply-driven. On the one hand, the SBCS data suggest that veteran demand for business financing is no lower than that of nonveterans. Still, we know that the veteran self-employment rate has declined to a greater extent than the nonveteran self-employment rate during this time period (see Figure 1A), so the asymmetric loan growth may be at least partially due to this shifting demographic trend. It is also important to note that barriers to capital can create financial challenges for businesses, as 36 percent of veteran-owned businesses reported having challenges with credit availability, compared to 30 percent of nonveteran-owned businesses.³⁴

31 SBA loan guarantees are typically provided for a fee to the lender. Loans for veterans of certain sizes are eligible for discounts on these fees. For more information, visit <http://www.SBA.gov>.

32 2017. SBA Information notice. https://www.sba.gov/sites/default/files/lender_notices/Notice_5000-1955_Veteran_Fees_FY18.pdf.

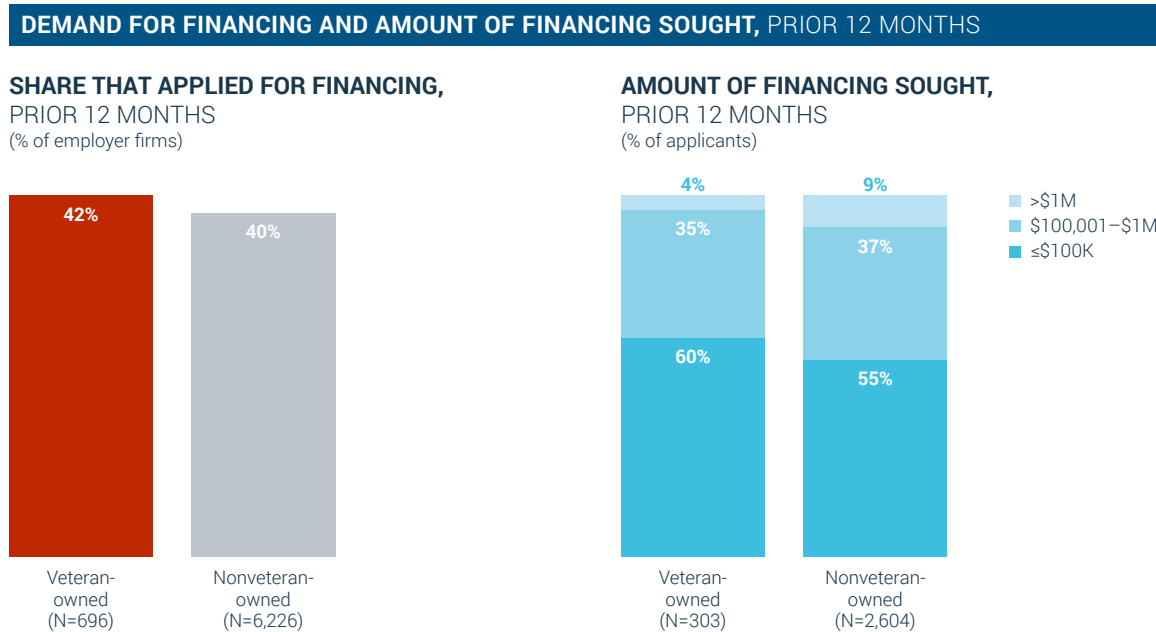
33 SBA Office of Veterans Business Development <https://www.sba.gov/offices/headquarters/ovbd/resources/160511>.

34 2017 Small Business Credit Survey, Federal Reserve Banks.

REASONS FOR FINANCING SHORTFALLS

The data support three possible explanations for why veteran-owned businesses were more likely to experience financing shortfalls. First, while demand for financing was similar, a larger share of veteran-owned businesses that applied for financing sought \$100K or less compared to nonveteran-owned businesses (see Figure 7). This discrepancy could be due to the smaller size of veteran-owned firms outlined previously. It can be more costly for larger lending sources (i.e. banks) to process smaller loans due to transaction costs (e.g. overhead, expected charge offs, etc.). As such, banks may be less likely to approve smaller loans.³⁵ Given that a greater share of veteran-owned businesses sought \$100K or less, one possible explanation for the lower approval rates, particularly at larger banks, could be a mismatch in the lender from which financing was sought and the lender most likely to approve smaller loan amounts.

FIGURE 7



Prior 12 Months is approximately Q4 2016 through Q4 2017. Percentages may not sum to 100 due to rounding. Source: 2017 Small Business Credit Survey, Federal Reserve Banks.

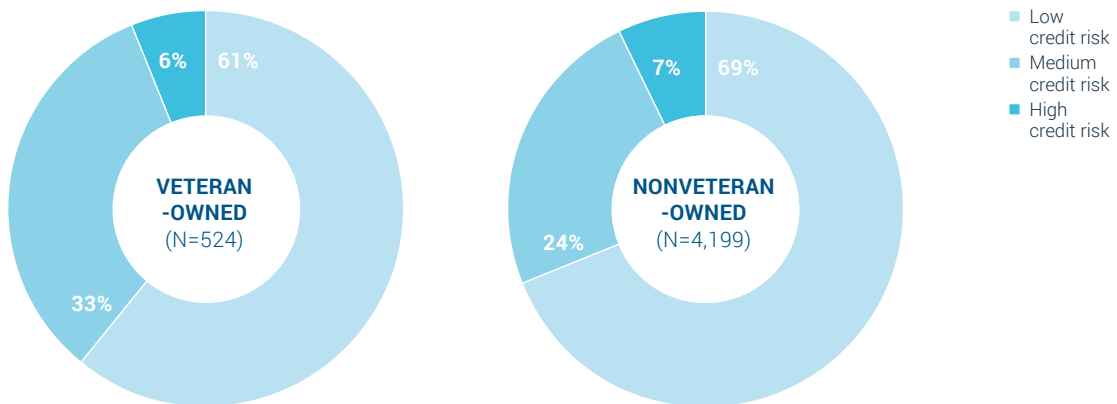
35 Simon. 2015. Big banks cut back on loans to small business. Wall Street Journal.

Another explanation focuses on credit scores and credit histories. It has often been surmised that, due to the frequent moves and overseas travel associated with military life, veterans may have a harder time building a credit score and history relative to nonveterans. As a result, they may have a more difficult time accessing business financing. The SBCS data support this notion, as veteran-owned businesses were less likely to be deemed low credit risks and more likely to be deemed medium credit risks compared to nonveteran-business owners (see Figures 8A & 8B).

FIGURE 8A

CREDIT RISK OF FIRMS

(% of employer firms)



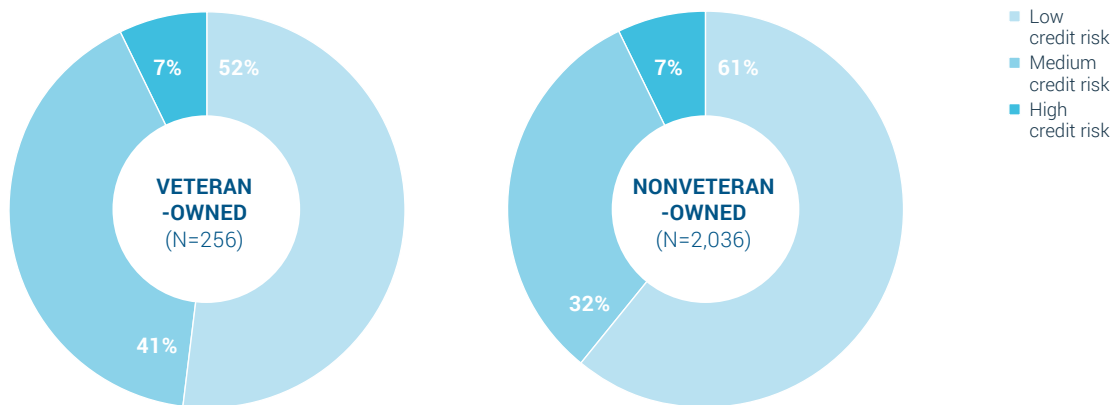
Credit risk is based on self-reported business credit score or personal credit score, depending on which is used to obtain financing for the business. If the firm uses both, the highest risk rating (lowest score) is used. 'Low credit risk' is an 80-100 business score or 720+ personal credit score. 'Medium credit risk' is a 50-79 business credit score or a 620-719 personal credit score. 'High credit risk' is a 1-49 business credit score or a <620 personal credit score.

Source: 2017 Small Business Credit Survey, Federal Reserve Banks.

FIGURE 8B

CREDIT RISK OF APPLICANT FIRMS

(% of applicants)



Credit risk is based on self-reported business credit score or personal credit score, depending on which is used to obtain financing for the business. If the firm uses both, the highest risk rating (lowest score) is used. 'Low credit risk' is an 80-100 business score or 720+ personal credit score. 'Medium credit risk' is a 50-79 business credit score or a 620-719 personal credit score. 'High credit risk' is a 1-49 business credit score or a <620 personal credit score.

Source: 2017 Small Business Credit Survey, Federal Reserve Banks.

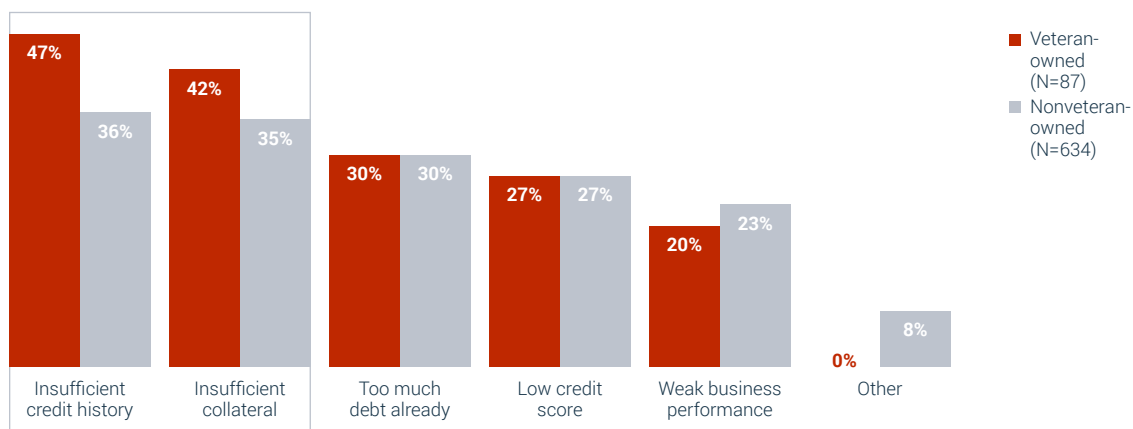
Additionally, a larger share of veteran-owned businesses that experienced financing shortfalls reported that insufficient credit history and insufficient collateral were the reasons they believed they were denied credit compared to non-veteran business owners (see Figure 9).

Interestingly, despite reporting lower credit scores on average, veteran business owners did not report a higher incidence of credit denials due to a low credit score (see Figure 9). This outcome could be because low credit scores have already barred business owners from attempting to borrow; however, the credit risk discrepancy is still present when looking only at applicant firms (see Figure 8B). Another explanation is that the business owners felt that limited credit histories and/or lack of collateral were stronger deterrents to obtaining financing.

FIGURE 9

REASONS FOR CREDIT DENIAL

(% of applicants with financing shortfall)



Respondents could select multiple options.

Source: 2017 Small Business Credit Survey, Federal Reserve Banks.

Moreover, businesses often use homes or other personal assets as collateral to secure debt.³⁶ Veterans have a higher rate of homeownership compared to nonveterans across age groups. Per the 2016 Current Population Survey Annual Social and Economic Supplement, 77 percent of veterans owned homes compared to 66 percent of nonveterans. For those aged 25 to 45, 60 percent of veterans owned homes, compared to 55 percent of nonveterans.³⁷ Assuming veteran business owners do not differ drastically from the overall veteran population, it would seem that they are more often suited to have sufficient collateral. Still, it is possible that these business owners need more collateral than their homes can provide or are less willing to use their homes as collateral. Indeed, an analysis conducted by the IVMF of the 2016 Survey of Customer of Finance indicates that 31 percent of veterans were not willing to take any financial risks, compared to 21 percent of nonveterans.³⁸ This tendency could translate into a greater hesitance toward using one's residence for collateral.

36 Federal Reserve Banks. 2017. Small Business Credit Survey Report on Employer Firms. <https://www.fedsmallbusiness.org/survey/2018/report-on-employer-firms>.

37 March 2017 Current Population Survey Annual Social and Economic Supplement (covers 2016). Home ownership determined as those paying property taxes.

38 Maury, IVMF (2018). Working Brief: Connecting Insights on Veteran Entrepreneurship, Community Development Financial Institutions, and Access to Capital Challenges.

Finally, through their work with veteran entrepreneurs, the SBA's OVBD has found that many veteran entrepreneurs seek out assistance *after* they have already attempted and failed to obtain business financing.³⁹ The similar demand for financing; higher application rates for loans, lines of credit, and cash advances; and greater rates of financing shortfall for veteran-owned businesses could point to a lack of preparation for and/or understanding of debt financing requirements. Compared to equity financing, debt often requires a more rigid analysis of risk factors, such as credit and collateral. While veteran-owned businesses reported greater rates of credit denial due to insufficient credit history and insufficient collateral, members at the SBA note that credit can be fixed or explained by a borrower if properly prepared, and collateral is usually related to knowing that you will most likely have to put up your primary residence as collateral. Decisions around these factors have to be made prior to seeking financing, as they will impact which type of financing and lender would be the best fit. Additionally, given that veteran-owned businesses sought smaller loans on average, as mentioned previously, it is important for these owners to know which lending sources are a better fit for the size of loan they seek. Meeting with a business advisor, putting together a financing strategy, and setting expectations are steps that should be taken prior to meeting with a lender. Perhaps it is a greater tendency for self-reliance and perseverance that leads to veterans going about the loan process without initially seeking help and then trying repeatedly. However, such an explanation remains anecdotal.

39 Based on interviews with SBA's OVBD personnel.

RESEARCH CONCLUSIONS AND FORWARD THOUGHTS

The special cuts from the SBCS data provide the most substantial evidence to date that veteran business owners have a more difficult time obtaining capital compared to nonveterans. Veteran business owners reported more financing shortfalls and lower approval rates. These outcomes may be contributing to the declining rates of veteran entrepreneurship and the lower sales for smaller veteran-owned firms relative to nonveteran-owned firms of the same size. Still, more research is required to thoroughly explain the causal factors for these declines. Analysis of the SBCS microdata is better suited to provide evidence for why veterans are facing difficulties accessing business financing; possibilities include:

Lower amounts sought/possible lender mismatch—A greater share of veteran business owners reported seeking \$100K or less in financing compared to nonveteran business owners. It can be more costly for larger lending sources (i.e. banks) to process smaller loans due to fixed transaction costs. As such, larger lenders tend to be less likely to approve smaller loans. A possible explanation for lower approval rates could be a mismatch in the type of lender from which financing was sought and the lender most likely to approve smaller loan amounts.

Low credit scores/insufficient credit history—Veteran business owners reported lower credit scores on average and a greater rate of credit denial due to insufficient credit history and collateral. These findings are in line with the notion that the frequent moves and overseas travel associated with military life can hinder veterans' opportunities for building credit compared to nonveterans, but may not be indicative of their level of financial responsibility.

Need to seek out help—Veteran business owners submitted more loan applications and had lower approval rates. Observations by SBA officials, who often see veterans *after* they have already attempted and failed to obtain business financing, indicate that business owners may lack understanding of or preparation for the loan application process. Those who seek mentorship and understand the credit and collateral requirements could be better able to put successful applications together after the fact.

Overall, the data point to several credit-related shortfalls facing veteran-owned businesses. These outcomes could be the result of the frequent moves associated with military life; as such, interventions to facilitate capital access for veterans may be needed. Based on the above results, we illustrate several ways policy makers and service providers could potentially help veterans overcome financing shortfalls.

Easier debt financing: One potential way to increase credit is through the one thousand Community Development Financial Institutions (CDFIs). CDFIs provide affordable capital (and mentorship) to build local communities. There are already a few CDFIs with a veteran focus, such as the PeopleFund.⁴⁰ The CDFI Fund could bolster CDFI investment activity by allowing veteran-owned businesses to be considered a targeted population for certification purposes. There are also a few private and local initiatives. Both JP Morgan Chase and Bank of America have committed investments toward veteran lending via CDFIs,⁴¹ and there is an Illinois state initiative for easier business lending targeting veterans along with other populations.⁴² In fact, JP Morgan Chase's funding also supported the creation of Veteran LLC, a CDFI lending collaborative for veterans.

Mentorship: Some business owners, including veterans, have little understanding of the lending process. There are multiple organizations, such as the SBA, that exist to assist veteran entrepreneurs. Meeting with a business advisor, putting together a financing strategy, and setting expectations are steps that should be taken *before* meeting with a lender.

Awareness and marketing: It is important to spread awareness of the difficulties veterans face in obtaining business financing as outlined in this paper, as well as the many organizations that exist to propel veteran entrepreneurship. These findings support SBA's recent rebranding to increase awareness to the borrowing community—complete with a new logo. Additionally, JP Morgan Chase and Veteran LLC, mentioned previously, have put together a web portal⁴³ designed to serve veterans anywhere in the country to obtain a CDFI business loan. Spreading awareness of all the organizations that exist to help veteran entrepreneurs will go a long way to addressing problems.

A final thought is that to solve a problem, you first have to define it and often quantify it. This collaboration between the Federal Reserve Bank of New York and the US Small Business Administration to support veteran business owners illustrates the synergies than can result from doing just that: defining and quantifying issues surrounding veteran business owners' financing shortfalls. Veterans get credit for defending our freedom, and now we know that they need more credit for their businesses.

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40 Visit <https://peoplefund.org/> for more information.

41 JPMorgan Chase Announces \$4.2 Million Investment to Support Veteran Small Business Owners <https://www.jpmorganchase.com/corporate/news/pr/investment-veteran-small-business-owners.htm>; Moynihan, 2018. CNBC. Bank of America CEO: One big way to help veterans is help them get capital to start business.

42 Dempsey, 2018. Illinois Vets Get Boost In Starting Businesses. <https://patch.com/illinois/plainfield/illinois-vets-get-boost-starting-businesses>.

43 See: <https://www.vet.loan>.