

U.S. Latino Small Business Survey | Q3 2020

Small Business Loan Application Data from January 01, 2019 to September 30, 2020

Camino Financial's U.S. Latino Small Business Survey provides insights into macroeconomic trends within the U.S. Latino small business segment, predominantly those operating in low to moderate income areas and/or owned by first and second generation immigrants. The report is derived from 32,940 business loan applications to Camino Financial, a fintech platform that uses proprietary artificial intelligence software to aggregate data and build machine learning models that drastically reduce financing costs for Latino small businesses with limited or no credit history. This edition of the Survey includes data from the Second COVID-19 Latino Impact Survey¹ issued to gauge impact of and recovery from the COVID-19 financial crisis.

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Green Shoots Appear: Latino microbusinesses demonstrate resilience and regrowth despite continued funding challenges

CONCLUSIONS FROM THE SECOND COVID-19 LATINO IMPACT SURVEY

In Q3 2020, Latino-Owned Businesses (LOBs) began to reopen and recover from COVID-19-induced closures. LOBs display high levels of optimism for future success but are hindered by low levels of capital and access to relief funds.

Key Takeaways:

- **LOBs are resilient.** The pandemic forced the majority of LOBs to close temporarily in 2020, and 46% saw revenue declines above 30%. Despite that, 78% have reopened and 44% have returned to pre-COVID revenue.
- **LOBs are optimistic.** 70% of LOBs believe their business will be as good as or better than pre-pandemic levels, yet up to 10% of LOBs believe they will have to close their business permanently.
- **Full recovery will not be quick.** Limited access to capital remains the single largest impediment to unlocking LOB growth potential. 60% have less than four months of operating capital, including 21% with less than three weeks. Despite that, LOBs are discouraged from seeking additional funding or relief, with only 46% even applying.
- **Financial knowledge and familiarity are critical to funding recovery.** 16.5% of LOBs with a pre-existing relationship with a lender ("Borrowers")² received PPP funding, vs. only 2.5% of Non-Borrowers³. Pre-existing lender relationships, coupled with associated education and support, make Borrowers 6.6x more likely to obtain relief funds, including PPP.

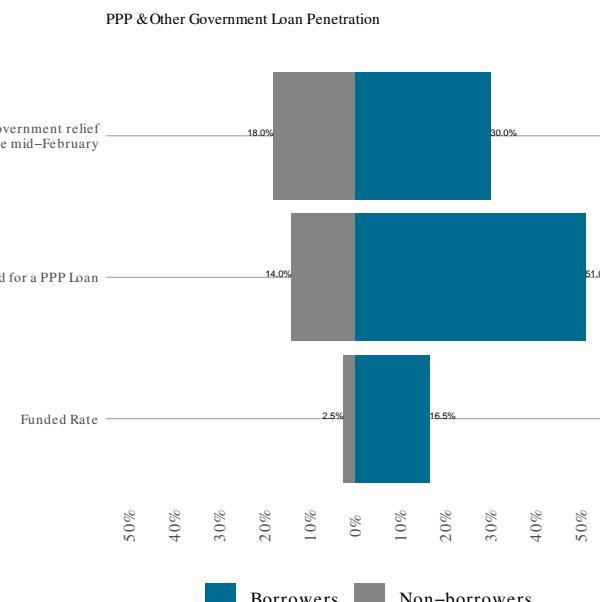
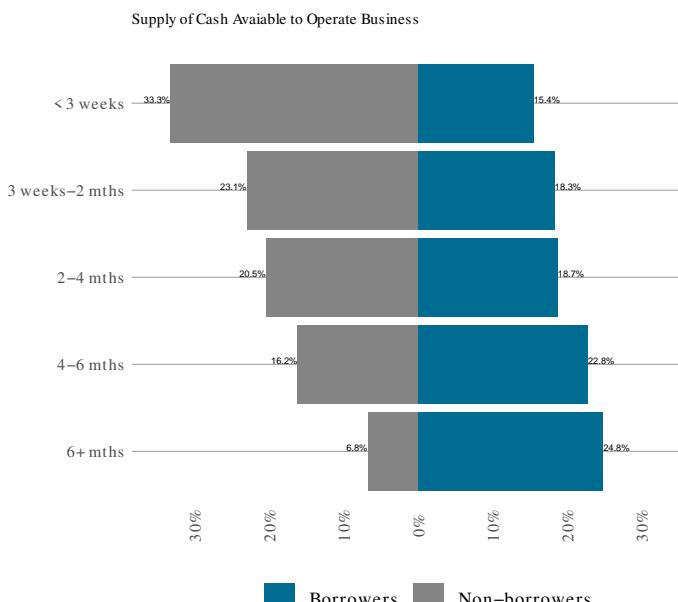
Rate of recovery is critically contingent on financial support now.

While LOBs are optimistic, tenacious, and flexible, their regrowth is hindered by structural funding challenges. Immediate investments will produce better results, and the longer that significant investment is withheld, the more that will be required and the less effective it will be. *Giving a hand up now prevents the need for handouts later.*

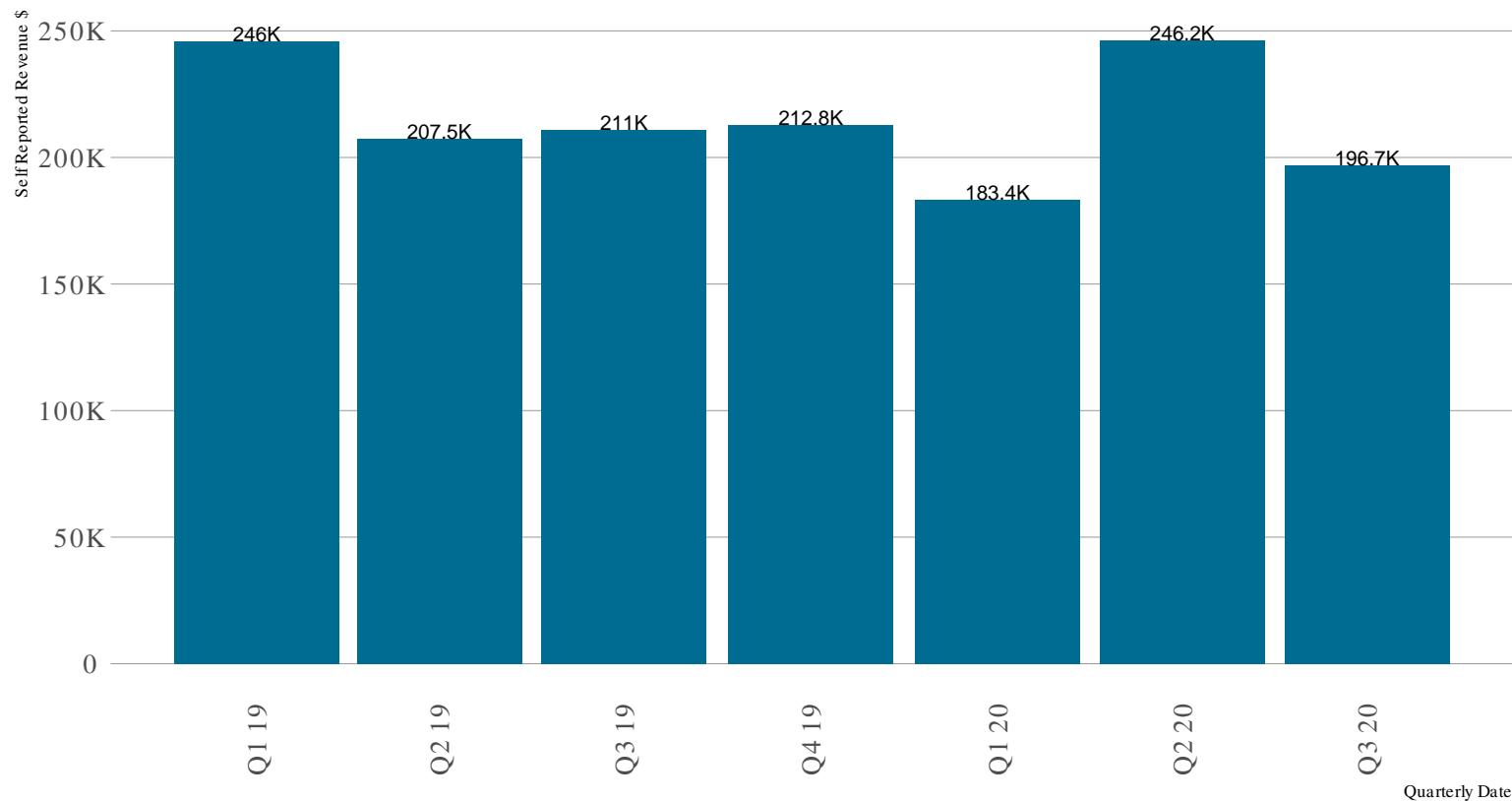
This hand up needs to include not only investment of capital in LOBs, but also guidance through the application process and continuing education and training once the capital has been obtained.

Second COVID-19 Latino Impact Survey

An additional survey of 368 LOBs to gauge impact of and recovery from the COVID-19 financial crisis

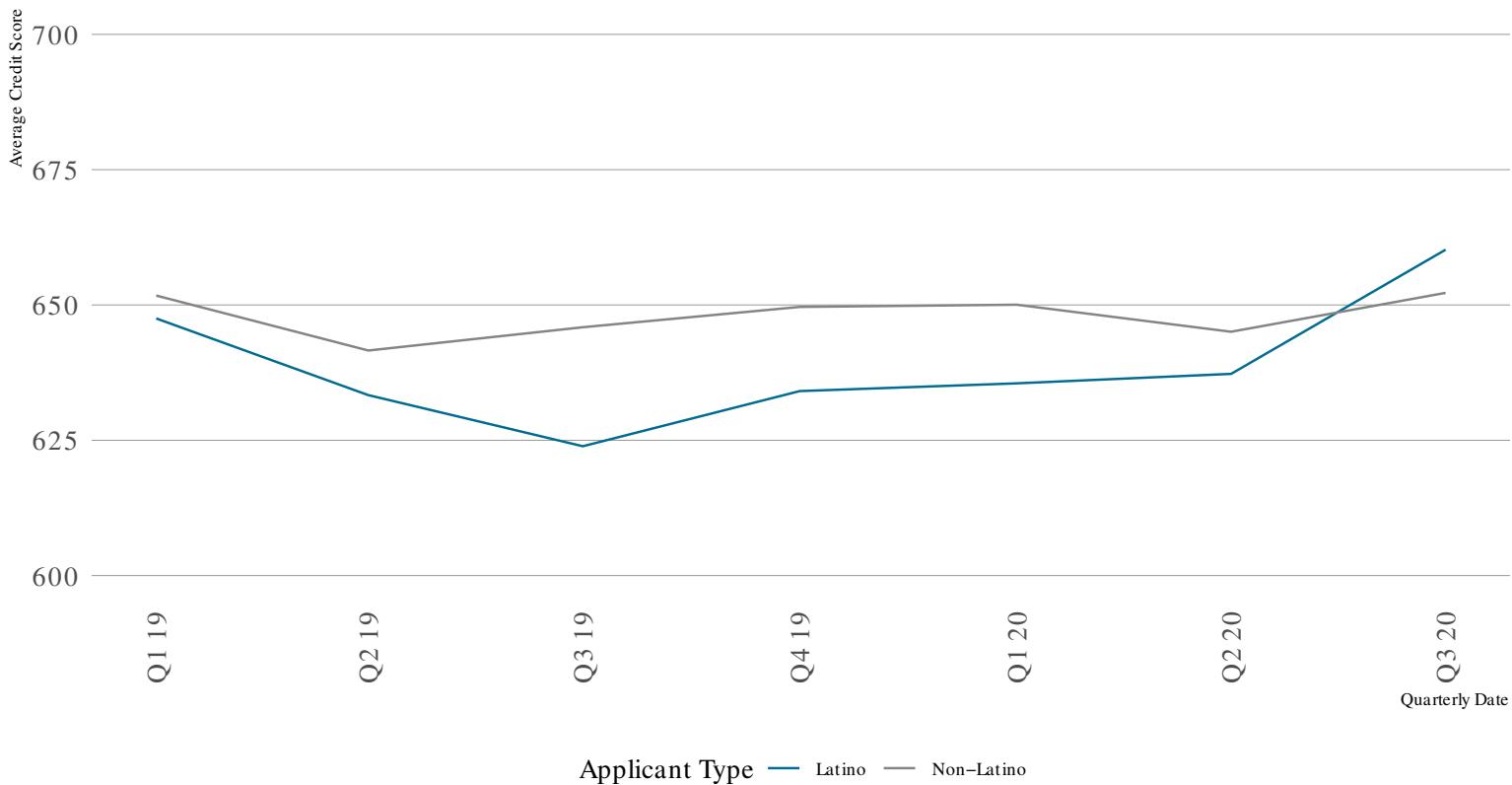


Average Self Reported Annual Revenue for U.S. Latino Applicants



The chart above reflects the quarterly average Self Reported Revenue for Latino Applicants. In Q3 2020 these applicants experienced a 20% decrease in revenue compared to last quarter. The prior quarterly numbers showed Average Self Reported Annual Revenue skewed towards larger, less risky borrowers. Q3 2020 shows a normalization of the typical borrower, measured by revenue, back to pre-COVID-19 levels.

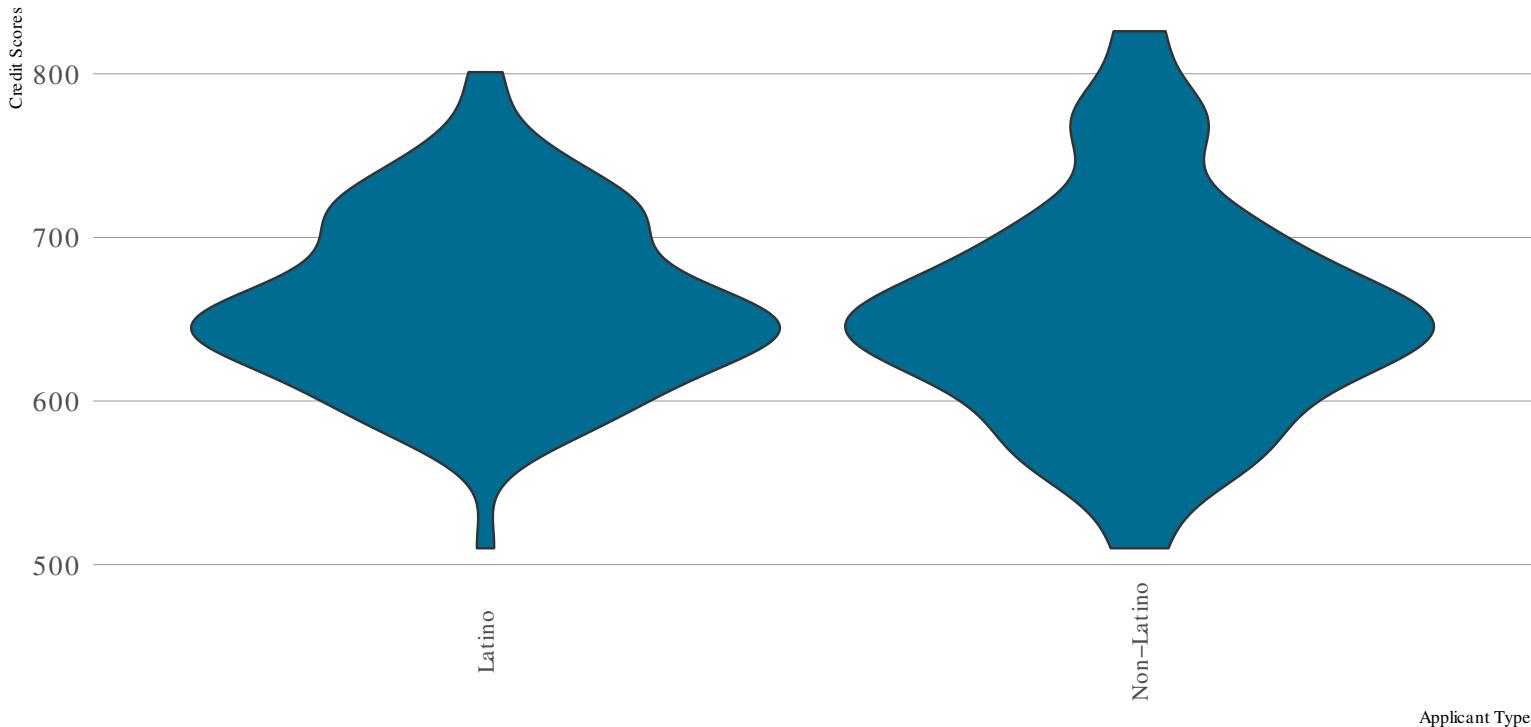
Average Credit Scores by Quarter and Applicant Type



The chart above reflects the quarterly average Credit Score by self-designated cohorts of Latino and Non-Latino business loan applicants. The Credit Score defined herein is a personal FICO score of the applicant, measuring the applicant credit quality with higher scores corresponding to borrowers with a lower expected rate of credit default. Stratifying Credit Scores is helpful in providing a measure of credit risk by applicant cohort.

All cohorts experienced an increase in Credit scores. Latino applicants had a lower credit risk compared to Non-Latino for the first time. In Q3 2020, Latino and Non-Latino have an average Credit Score of 660 and 652, respectively. Lower-credit potential borrowers are likely discouraged from applying in adverse economic conditions or not actively targeted by lenders.

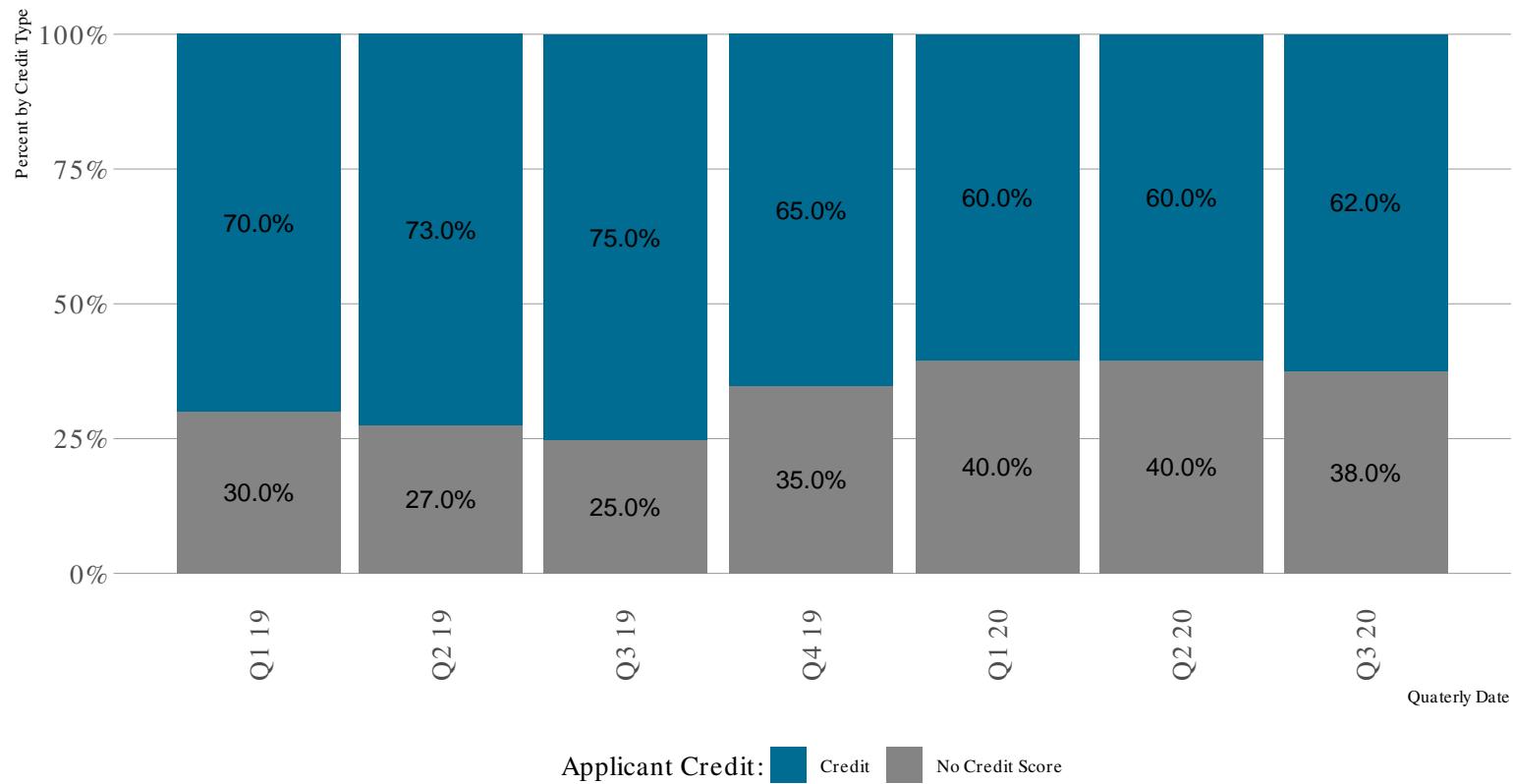
Distribution of Q3 2020 Credit Score by Applicant Type



The graph represents the distribution of Credit Scores across each cohort. In Q3 2020, both cohorts reflect a concentration of Credit Scores in the 600 to 700 range with the highest density at the midpoint. The Latino cohort tends to have a lower density of Credit Scores above 700, compared to Non-Latino applicants.

Prior to the COVID-19 outbreak, the Credit Scores were more distributed below 500 for all applicant types. This reflects bias towards positive selection because those with lower Credit Scores are likely discouraged from applying for credit during an economic downturn or lenders are targeting larger, higher FICO credit applicants.

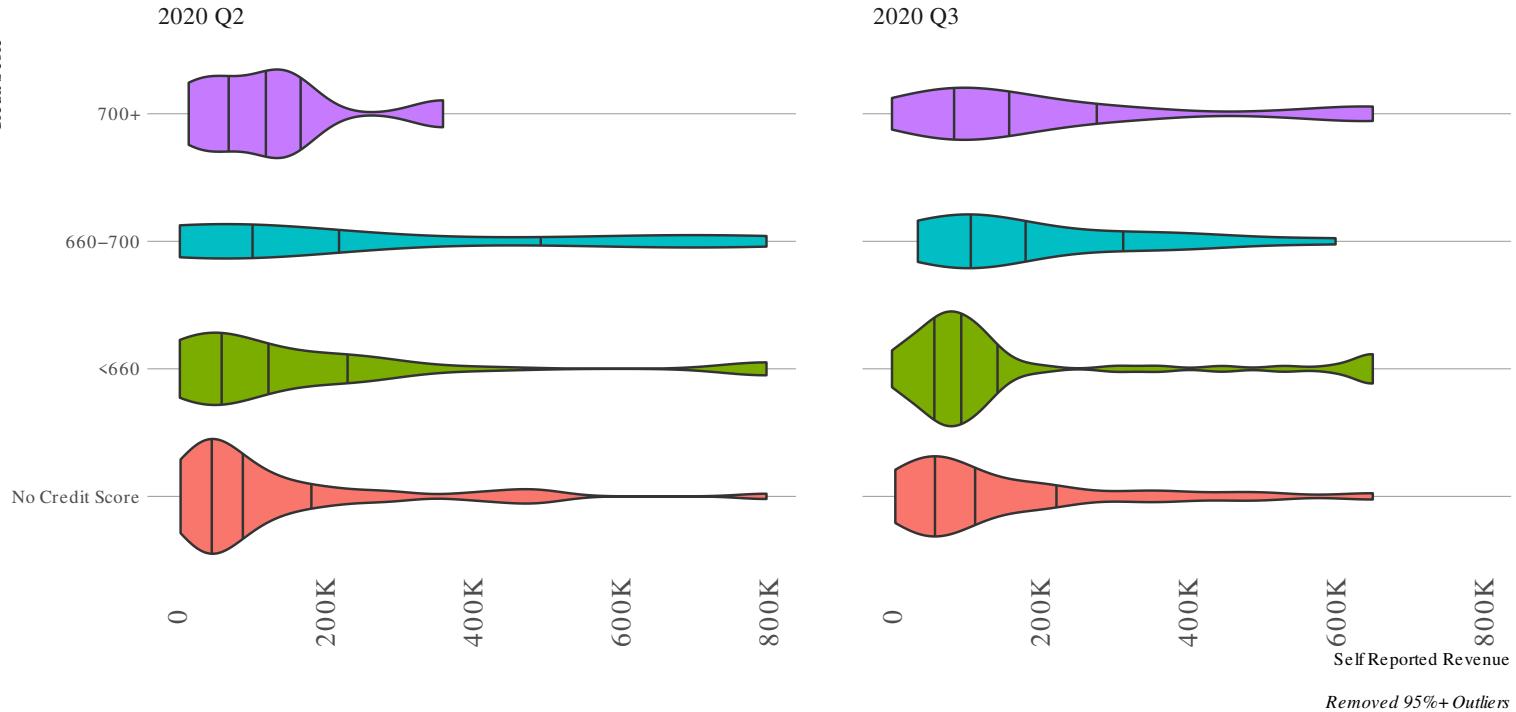
Percentage of U.S. Latino Applicants by Credit Type



The chart above shows the percentage of Latino applicants by quarter with and without a reported Credit Score. The applicants with No Credit reflect applicants with limited to no credit history based on their personal identifiers, including but not limited to Social Security and unique Tax Identification Number.

The third quarter of 2020 experienced a decrease in No Credit Latino businesses to 38% of Latino applicants. No-Credit Latino potential borrowers are likely discouraged from applying in adverse economic conditions or lenders are targeting larger, higher FICO credit applicants.

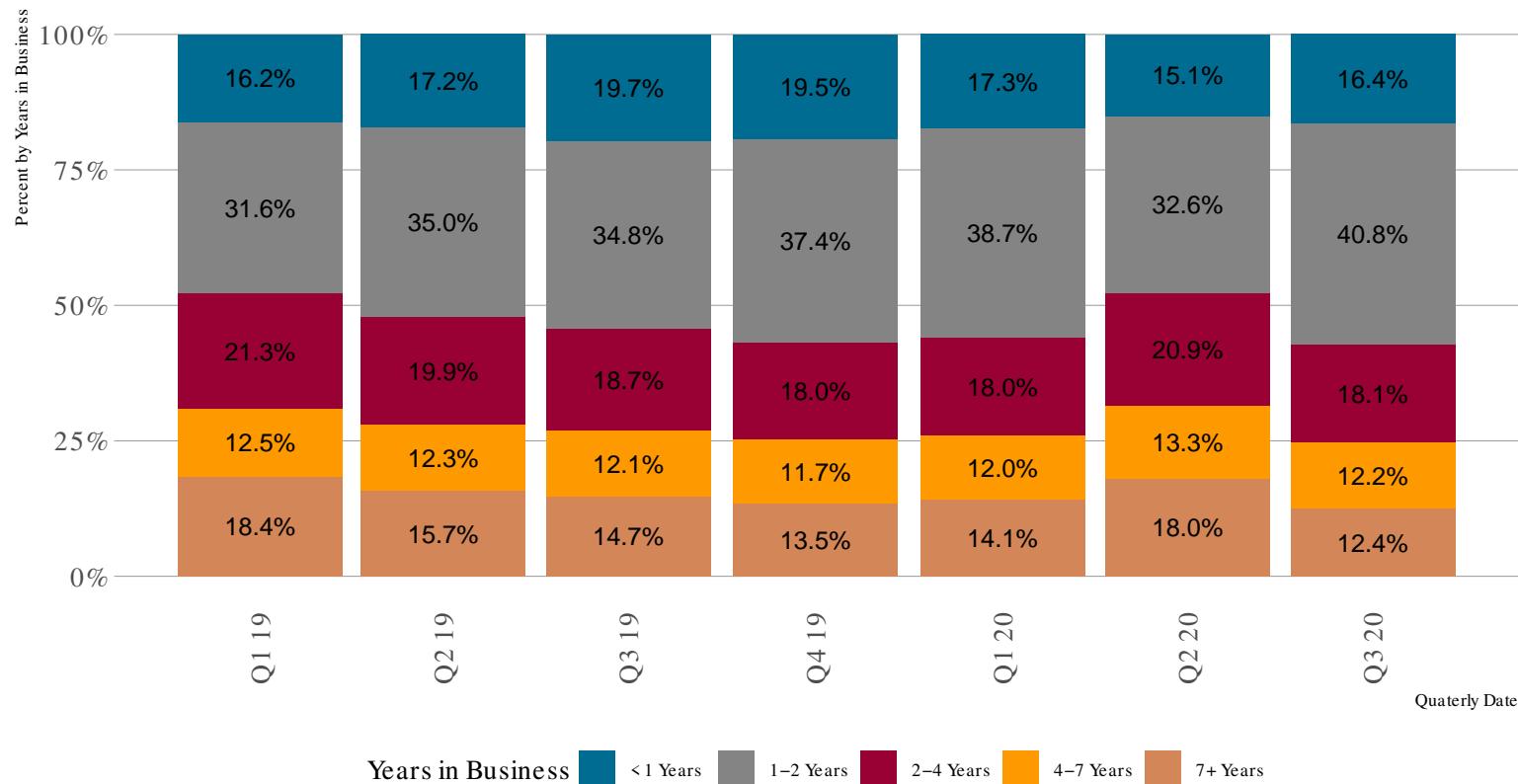
Q3 2020 Distribution of U.S. Latino Self Reported Revenue by Credit Score



The graph above represents the distribution of Self Reported Revenue by Credit Score. Self Reported Revenue represents annual gross sales of an applicant's business. This input is not verified by Camino Financial. The graph demonstrates that credit scores are a reasonable but not the strongest predictor of the size of a Latino business.

For Q3 2020, Latino applications with No Credit Scores had a median Self Reported revenue of \$83k. In Q2 2020, Latino applications with No Credit Scores had a median Self Reported revenue of \$82k demonstrating a consistently flat demand from lower revenue groups.

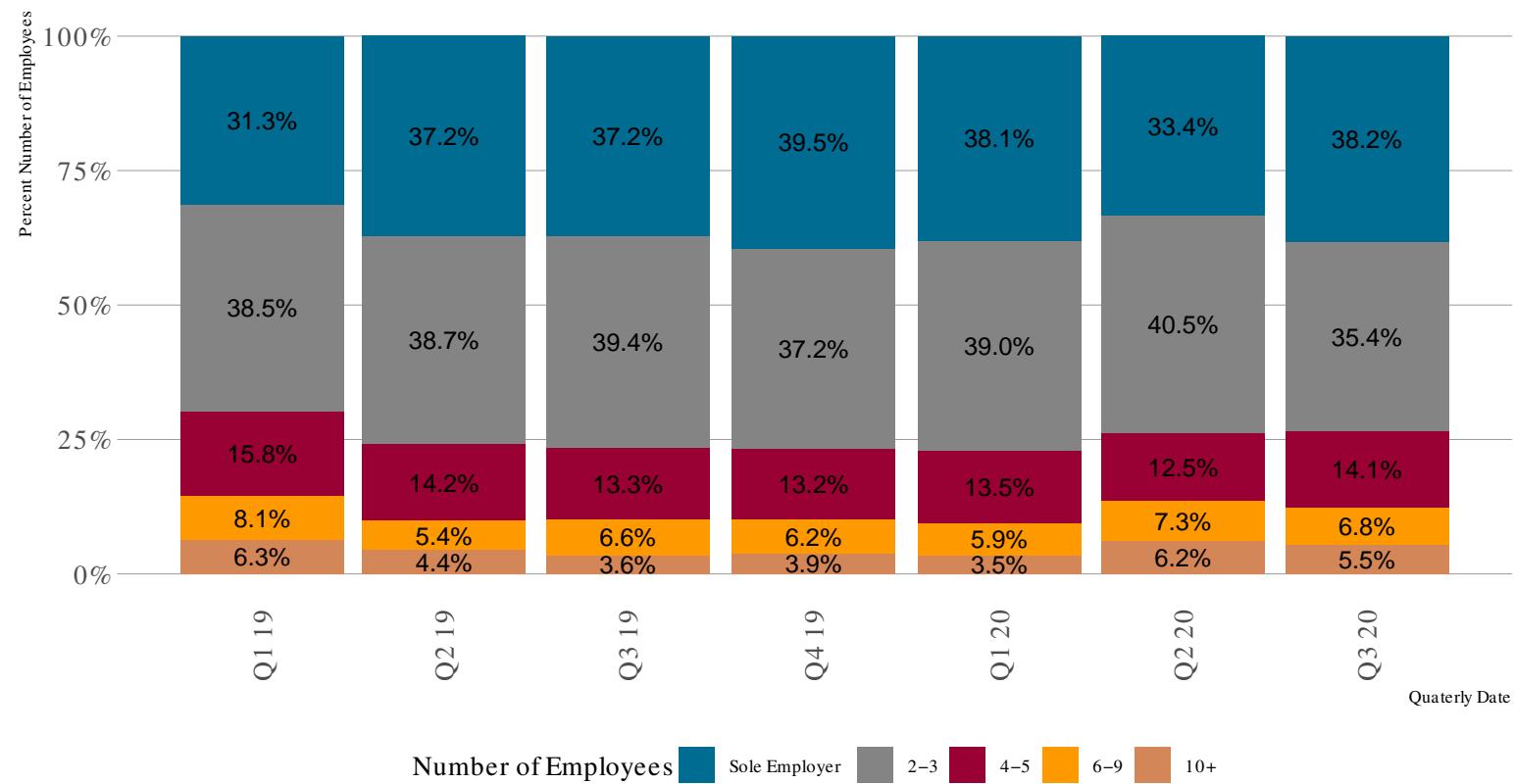
Percentage of Years in Business for U.S. Latino Applicants by Quarter



The chart above shows the percentage distribution of years in business for Latino applicants.

In Q3 2020, there was a 19% increase in the percentage of LOBs that have been open for two years or less. The market for earlier stage business applicants is starting to return to pre-COVID-19 levels

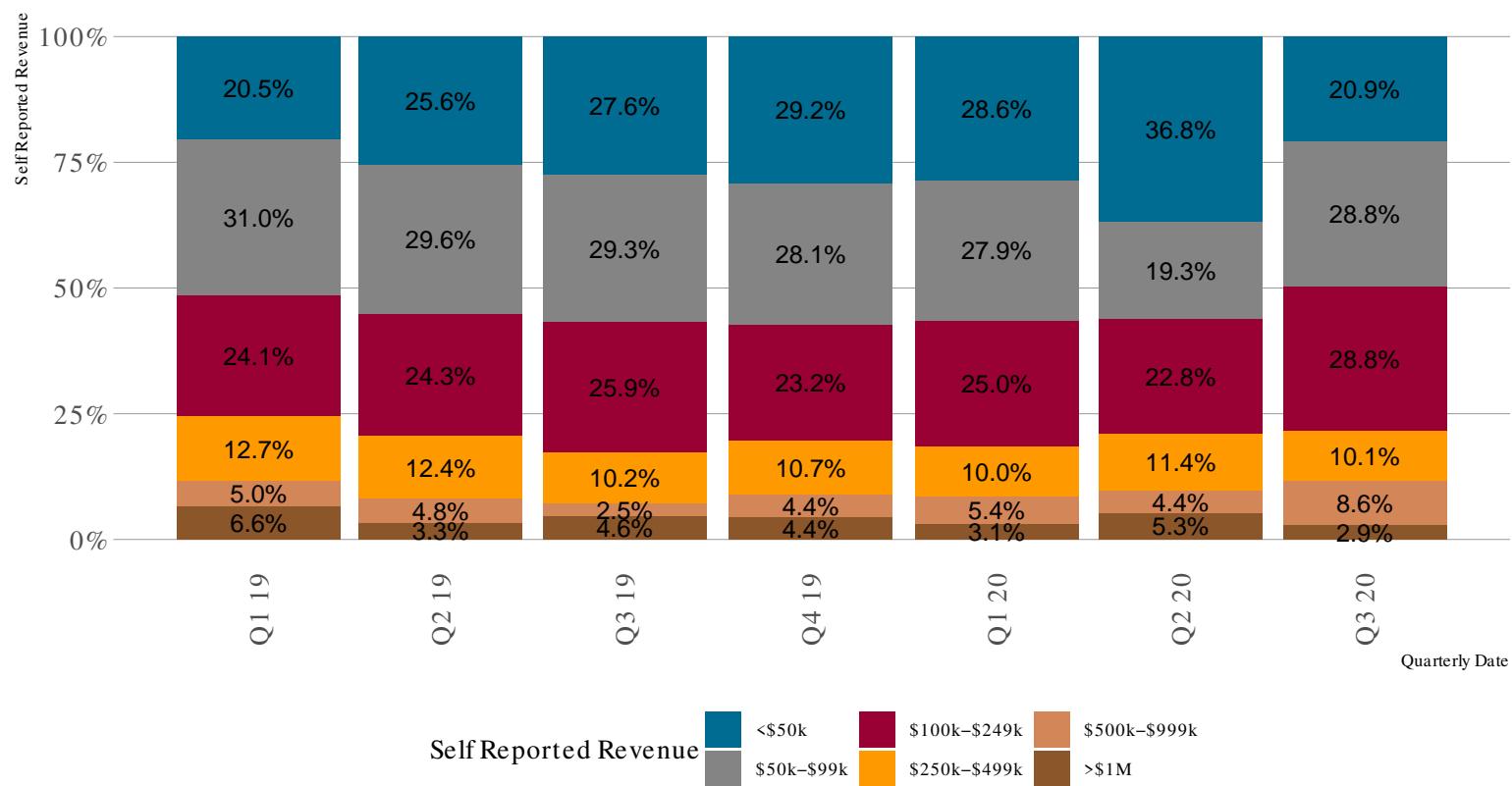
Percentage of Number of Employees for U.S. Latino Applicants by Quarter



The chart above shows the percentage distribution of the number of employees of U.S. Latino businesses applying for a Camino Financial loan.

The analysis reflects a steady increase of employer firms requesting credit since Q1 2020, a 14% increase in the percentage of sole employers, reversing the drop-off of microbusiness applications from the previous quarter. This is a leading indicator of recovery.

Distribution of U.S. Latino Self Reported Revenue by Quarter

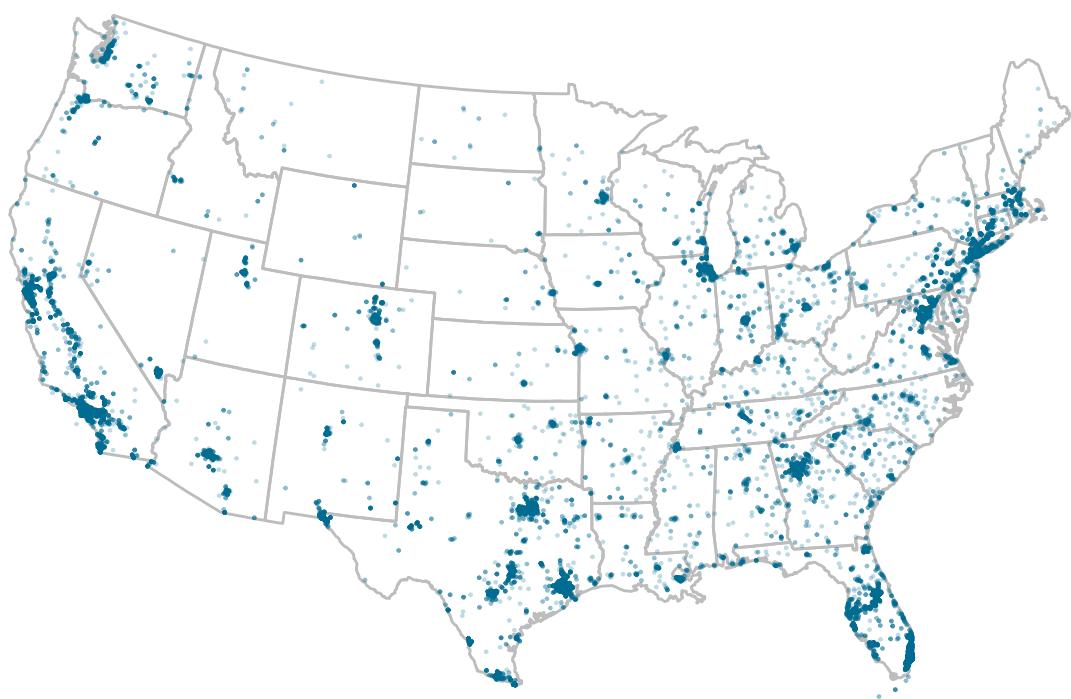


The chart above represents the quarterly distribution of U.S. Latino businesses by Self Reported Revenue.

The analysis shows that Latino businesses skewed very small during the COVID-19 stress period last quarter. For Q3 2020, the distribution of reported revenue changed to reflect more in line with historical distributions. 85% of Latino applicants self reported less than \$366,000 in annual gross sales.

Table 1: U.S. Latino Applicants Stats from LMI Regions

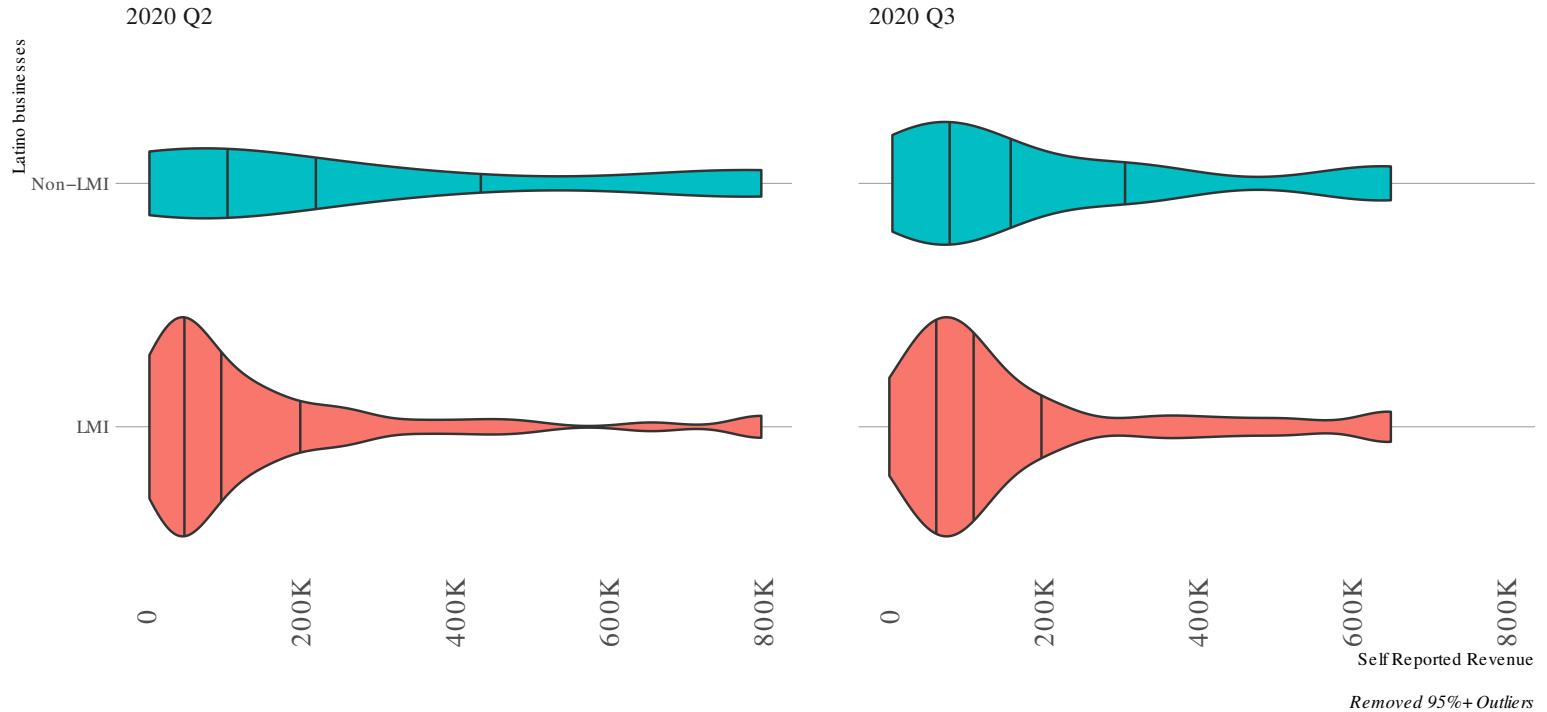
Quarterly Period	Application QoQ Growth	Average Revenue
Q1 19	51.1%	\$243,423
Q2 19	36.7%	\$198,203
Q3 19	61.3%	\$218,194
Q4 19	8.9%	\$205,026
Q1 20	-7.5%	\$176,763
Q2 20	-79.5%	\$237,313
Q3 20	-4.7%	\$184,414

Q3 2020 Applicants Low and Moderate Income – Overall⁴

The table and map above show the Latino applicants' distribution across Low to Moderate Income ("LMI") areas by quarter and geography. An LMI area is where the median income of households is less than 80% of the median income in the associated metropolitan statistical areas ("MSAs"). The analysis uses zip codes to designate whether the applicant's business is operating in an LMI area per [United States Department of Housing and Urban Development](#).

In Q3 2020, the average revenue of an LMI Latino business decreased to \$184,414, reflecting a 22% decrease compared to the prior quarter. This analysis shows that smaller and lower credit quality small businesses are coming back into the credit market searching for financial support. This is a stark contrast to the lower risk, larger companies applying for loans last quarter. However, the continued decrease in QoQ applications shows that recovery is nascent and vulnerable to disruption.

2020-07-01 Distribution of Self Reported Revenue for U.S. Latino Applicants



The graph represents the distribution of annual revenue for LMI and Non-LMI Latino businesses.

Median revenue for Non-LMI and LMI is \$105k and \$100k, respectively in Q3 2020 whereas in Q2 2020 median revenue for Non-LMI and LMI is \$130k and \$79k, respectively. Median revenue decreased for the Non-LMI but increased for the LMI segment over the last quarter.

Authors

Sean Salas

Co-Founder and CEO

As the CEO of Camino Financial, Sean has built a team of 60+ associates across two offices in Los Angeles and Mexico City, supporting thousands of underbanked Latino businesses across the U.S. Sean works directly with the product and data science teams to build capabilities around data aggregation and machine learning models that predict credit performance and business insights in the Latino market.

Sean is often featured as a commentator discussing FinTech and Latino entrepreneurship, with contributions to Forbes and appearances on Univision and CNN. Prior to co-founding Camino Financial, Sean worked at a private equity fund where he invested \$50 million in direct equity investments and helped manage four portfolio companies with over \$250 million in combined revenue. Before then, Sean worked as an investment banker at UBS Investment Bank. Sean holds an MBA from Harvard Business School and a BA from UC Berkeley.

Kenny Salas

Co-Founder and COO

As COO, Kenny is in charge of managing Camino Financial sales and operational support across all verticals in the company. Kenny works at the Mexico City office where he oversees a team of over 30 associates. Prior to Camino Financial, Kenny Salas previously worked three years in private equity at Palladium Equity Partners, focusing on investing in the US Hispanic market, and served on the Board of Directors of Wise Foods. Prior, Kenny worked at Barclays covering M&A and restructurings for depository banks in 2008-09. Kenny holds an MBA from Harvard Business School and a BA from UC Berkeley.

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About Camino Financial

Camino Financial is a data-driven fintech platform pioneering affordable credit and financial products for U.S. Latino businesses. The company uses proprietary artificial intelligence software to aggregate data and build machine learning models to drastically reduce financing costs for thin-file, cash-based microbusinesses. First-time borrowers typically experience monthly payments 50% less than those of existing credit products in the market for the same loan size. Microloans range between \$5,000 and \$100,000, structured for upward mobility with a graduation scheme into lower rates and longer-term loans as borrowers make timely repayments. Camino Financial has designed an omnichannel experience through its online presence and corporate partnerships to build entrenched distribution networks in the U.S. Latino market. The Company is headquartered in Los Angeles and operates another office in Mexico City. Camino Financial provides small business owners with free access to business resources on its [blog](#). Learn more at www.caminofinancial.com

Methodology

Source Data: The analysis is based on 32,940 small business loan applications received from 1/31/2019 to 09/30/2020 directly by Camino Financial and a separate survey of 368 LOBs relating to the impact of COVID-19. The Small Business Loan Application pool only includes information from applicants who designated their race or ethnicity. The breakout of Latino and Non-Latino applicants were 23,829 and 9,111, respectively.

Missing Value Analysis: Applications with missing information related to the analysis were removed. Non-Reported Credit Scores were not included when calculating the average Credit Score. Nationwide analysis has limited information for the states of New Jersey, North Carolina, Hawaii, and Puerto Rico.

Outliers: The variables in the analysis have been winsorized to control outlier effects. Winsorizing of data was only performed at .01 and .99 percentiles.

Statistical Significance: Smaller sample size in Q2 2020 and Q3 2020 may produce lower statistical significance of results. Certain charts and analysis disclosed in previous editions have been omitted due to lower sample size.

Notes

1. The COVID-19 impact related data was based on a survey to 368 LOBs completed between 8/16/2020 and 8/31/2020.
2. Borrowers (N=250) represent LOBs who were approved and accepted a Camino Financial loan.
3. Non-Borrowers (N=118) represent LOBs who were approved but did not accept an offered Camino Financial loan.
4. Nationwide analysis has limited information for the states of New Jersey, North Carolina, Hawaii, and Puerto Rico.
5. Reduced volume of applications in Q3 results in lower statistical significance.

Disclaimers

The information in this report is an aggregation of Camino Financial's Application Data and survey data from the Second COVID-19 Latino Impact Survey.

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