

ACCESS TO FINANCE IN MONTANA

**A Study of the Funding Landscape for
Entrepreneurs and Small Businesses**

Part 1: Survey of Funders

2023



Photo by Erika Spaulding
Missoula Makers Collective

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Acknowledgments

The project team of Accelerate Montana, Catalyze Global Impact LLC, and the Women's Entrepreneurship & Leadership Lab thank all the lenders and investors who shared information for this study. Their willingness to provide their real-world experiences enabled this study to understand and describe the landscape of small business financing in Montana. We hope this report will be useful for lenders, investors, policymakers, and others to identify new opportunities to provide effective financing for Montana's small businesses.

Bureau of Business and Economic Research (BBER):

The project team contracted the Bureau of Business and Economic Research (BBER) to conduct the quantitative survey at the core of this study. The BBER team consisted of John Baldrige as project manager and Janet Stevens as data collection coordinator. Their significant efforts led to successful data collection and analysis, which form the core of the quantitative data and analysis presented in this report.

Advisory Committee:

Starting in September 2022, the advisory committee met for working meetings to support the design, deployment, and review of data and analysis for this study. The advisory committee includes professionals from across the small business finance market in Montana, including regional banks, credit unions, community development financial institutions (CDFIs), economic development organizations, revolving loan funds, and state and federal loan, guarantee, and grant programs. The advisory committee members came from across the state of Montana representing eastern, central, and western regions as well as urban, rural, and Indigenous communities. The committee helped the project team focus on information the industry identified as important. Thank you for your guidance and insights.

Advisory Committee Members:

Marcy Allen, Missoula Community Foundation
Lad Barney, US Department of Agriculture Montana State Office
Kelcie Bates, Loan Officer, Great Northern Development
Rena Carlson, Small Business Administration
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Others who provided significant input: Jim Thaden, Mission West Community Development Partners; Angie Main, Native American Community Development Corporation Financial Services, Inc.; Sharon Small, Morning Star Credit Union; Jael Kampfe, Indigenous Impact Co. Herb Kulow and Ed Garding served as technical reviewers.



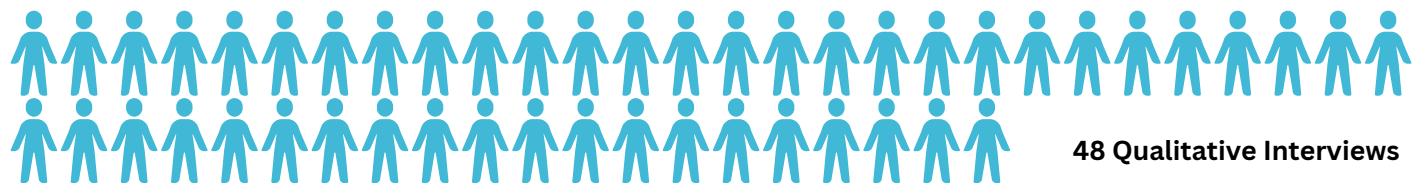
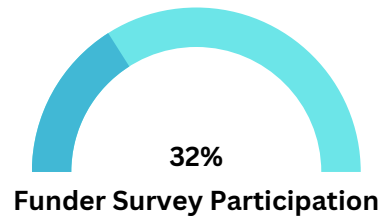
Photo from Big Dipper Missoula

Executive Summary

Genesis of this Initiative: Accelerate Montana, Catalyze Global Impact LLC, and the Women's Entrepreneurship & Leadership Lab launched an initiative on Access to Finance for Small Businesses in Montana in 2022. This initiative aims to better understand who provides small business finance, which businesses receive what type and volume of financing, what the financing needs are expressed by businesses, and how to ease market bottlenecks in the flow of small business finance across Montana. To achieve this goal, the project team, guided by a deeply experienced advisory committee from across Montana, designed and implemented a quantitative survey and qualitative interviews in 2022-23 of lenders, investors, state and federal agencies, and foundations that fund Montana's small businesses.

Based on the survey and interviews, this current report on small business funders shares key features of the landscape for small business finance in Montana. The quantitative survey of funders was co-designed and administered by the University of Montana's Bureau of Business and Economic Research (BBER) between late 2022 and early 2023.

Of the 112 lending and investing organizations invited to respond to this survey, 36 (32%) participated. In addition, the project team contacted over 125 people and interviewed over 48 people through qualitative research to explore the initial survey findings and delve deeper into the challenges and opportunities facing small business funders.



This report provides quantitative information, views of specialists across the state of Montana, and recommendations that state and federal policymakers, lenders, investors, and economic development organizations can use to shape small business programs. The study findings are expected to generate discussions to pursue new opportunities that will increase the flow of financing to early-stage and small businesses in Montana. This report will be followed by a second report, Accesses to Finance in Montana, Part 2, A Survey of Small Businesses, that will include information on business demographics, experience with financial services providers, use of financial services to start and grow businesses, and business constraints and opportunities.

Broad spectrum of small business funders active across Montana: Small businesses across Montana are the engine of growth for local communities, creating and retaining the vast majority of jobs while expanding Montana’s long-term economic development. Businesses depend on reliable access to finance to manage their operations and drive future growth. Lenders and investors are innovating in a challenging landscape, especially with the current interest rate environment. The number of commercial banks in Montana has decreased significantly from over 113 banks in 1995 to 39 banks in 2022. Over this same time period, the number of bank branches has more than tripled from 100 in 1995 to almost 350 in 2022.

Yet given Montana’s vast geography, there are limits to the reach of physical branches and offices of financial services providers, especially in rural and tribal areas. Thankfully, Montana benefits from a broad range of financial services providers including national, regional, and state banks, credit unions, financial cooperatives, revolving loan funds, economic development organizations, CDFIs, foundations, state and federal funding agencies, angel investors, investment crowdsourcing, venture capital funds, and other funders. Many of these funders work well together to co-finance loans and investments for Montana’s small businesses, especially when anchored by lenders and investors based in local communities. Expanding and strengthening this broad spectrum of capable and diverse lenders and investors would optimize access to finance for small businesses.

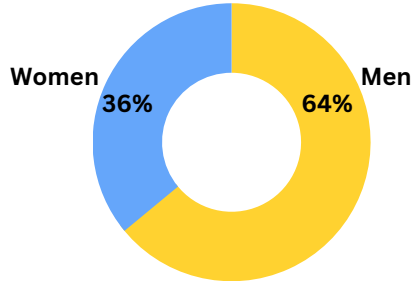
Key findings: Interviews with over 48 funders and specialists and quantitative survey results reveal a dichotomy in the market for small business finance across the state. Larger banks, credit unions, and venture capital funds report available liquidity and are actively seeking new business clients. However, the vast majority of community-based lenders interviewed for this study flagged that they are starved for capital to onlend or relend to small businesses, and some investment funds are struggling to fundraise capital. Smaller community banks, CDFIs, and economic development organizations with revolving loan funds reported experiencing more demand for their services than in the past. Based on the survey findings, CDFIs and loan funds are able to take more risk while proving their ability to manage risk and make loans sustainably--- especially during the COVID-19 pandemic and economic recovery. Yet liquidity is a significant challenge for these small community-based lenders. Finding ways of encouraging public-private partnerships and new combinations of lenders working together would help bridge this liquidity imbalance.



Key quantitative survey results:

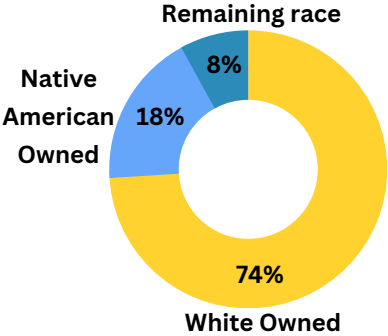
Loans and investments by gender:

Thirty-six percent (36%) of the loans or investments made by the responding organizations were made to women. Sixty-four percent (64%) of these organizations' loans or investments were made to men.



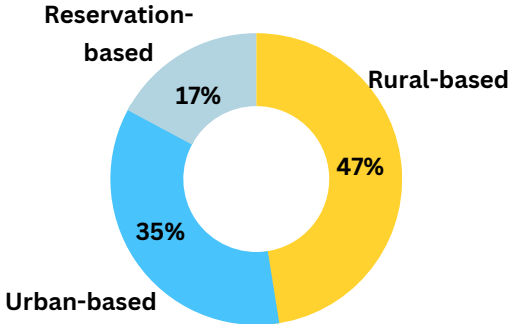
Loans and investments by race or ethnicity:

Seventy-four percent (74%) of the loans or investments made by the responding organizations were to White business owners. Eighteen percent (18%) of loans or investments made by responding organizations were to Native American business owners. Responding organizations made a total of eight percent (8%) of their loans to business owners in the remaining race or ethnicity categories.



Loans and investments by geography:

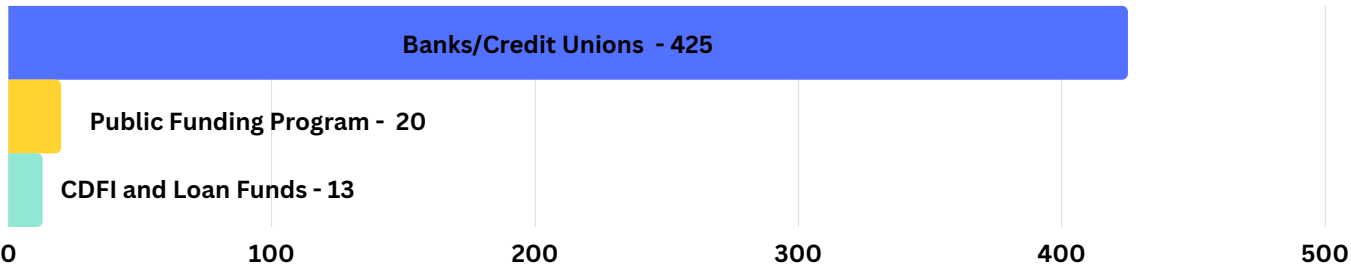
Forty-seven percent (47%) of loans or investments in Montana made by responding organizations were to rural-based businesses not located on a reservation. Just over one-third of loans (35%) made by respondents were to urban-based businesses. The remaining loans (17%) were made to rural businesses located on an American Indian reservation.



Number of loan originations:

In 2021, banks or credit unions reported 21 times more loan originations per organization (425) than did public funding programs per organization (20) and 33 times more than CDFIs and loan funds per organization (13).

2021 Number of loan originations in Montana



Loan size:

The median responding outstanding loan amount in 2021 from a bank or credit union to Montana small businesses was \$160,000, while the median public funding program loan outstanding amount was \$474,000. The average loan outstanding amount lent by CDFIs and loan funds was \$80,000.

Main approval factor for small business loans or investments in Montana:

Banks or credit unions most often reported (42%) the amount of equity invested by an owner or founder as their main loan approval factor, while CDFIs and loan funds most often reported (56%) realism or quality of the business plan as their main determinant. Public funding programs most frequently mentioned (33%) realism or quality of the business plan as their main approval factor.

Main approval factor for small business loans or investments in Montana

Main factor when approving a loan for Montana small businesses	All respondents	Bank or credit union	CDFI or loan fund	Public funding program	Investment fund or private foundation
Realism or quality of business plan	26%	8%	56%	17%	NA
Amount of equity invested by owner or founder in the business	22%	42%	11%	0%	NA
Availability of asset-based collateral	19%	25%	0%	33%	NA
Level of existing debt for the business, including credit card debt for business owner or founder	15%	17%	11%	17%	NA
Quality of management	7%	8%	0%	17%	NA
Availability of audited financial statements for the business	4%	0%	0%	17%	NA
Good prior relationship with borrower	4%	0%	11%	0%	NA
Credit score for business and/or primary owner	4%	0%	11%	0%	NA
Age of business	0%	0%	0%	0%	NA
Amount of equity invested by owner or founder in the business	50%	NA	NA	NA	50%
Realism or quality of business plan	50%	NA	NA	NA	50%

Factors impeding increased small business lending:

Inability or willingness to lend to, or invest in, marginal borrowers” was the factor most often reported (36%) by banks or credit unions as impeding their ability to increase small business lending. Availability of lending or investing capital (60%) and decision speed (60%) most often impedes CDFIs or loan funds. Public funding programs were most often impeded by availability of lending or investing capital (56%).

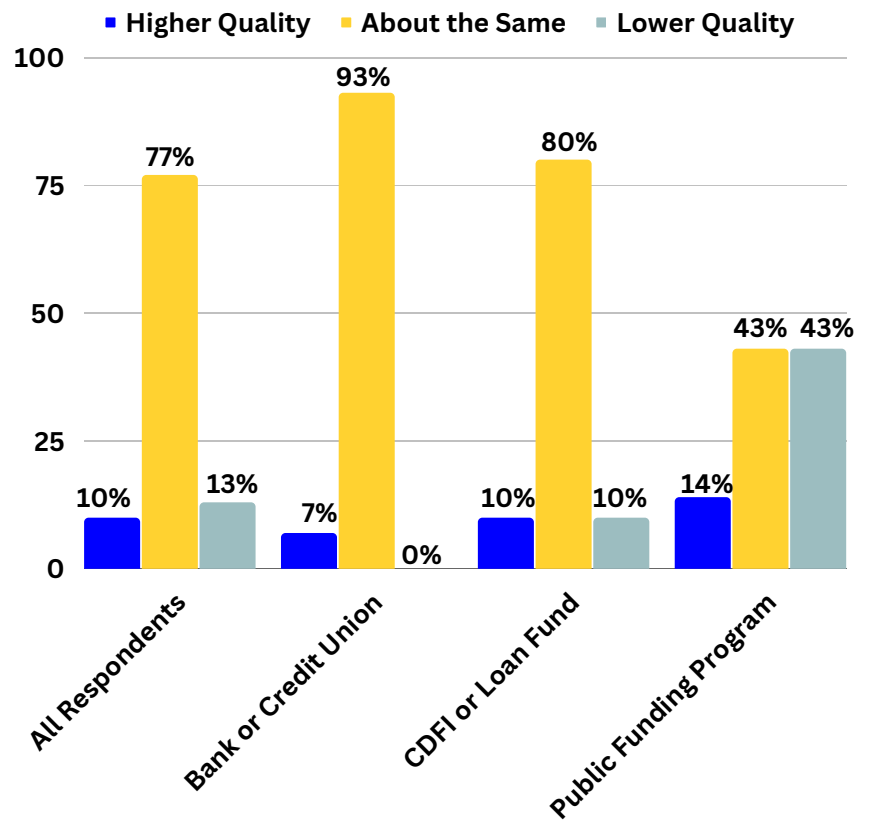
Small business portfolios:

Banks and credit unions (together 93%) and CDFIs and loan funds (together 80%) rated their small business lending portfolio as being the same quality as their overall lending portfolio. Forty-three percent (43%) of public funding programs rated their small business lending portfolio as the same quality as their overall portfolio.



Photo by Jazzer-Rae, Missoula Makers

Small business lending portfolio quality rating



Top 4 types of small business lending in Montana:

1. Across all organizations, asset-based lending is the most frequently reported (76%) type of lending to Montana small businesses.
2. Working capital lending is second most frequently cited (67%).
3. Nearly half (48%) of responding organizations provide revolving lines of credit.
4. Twenty-four percent (24%) of respondents offer financing through receivables and/or factoring.

Small business technical assistance:

In addition to financial services, forty-two percent (42%) of responding organizations also directly offer small business development services. An additional forty-nine percent (49%) of respondents refer small businesses to partner organizations for small business development services. Nine percent (9%) of respondents provide no small business development assistance of any kind.

Participation in state and federal programs:

All responding banks, credit unions, CDFIs, and loan funds participate in at least one federal or state loan, grant, loan guarantee, or investment program.

Recommendations: Based on the findings of this study, the following recommendations are offered as possible solutions to reinforce small business funders and expand responsible, effective financing for small businesses in Montana.

Market Gap 1 – Limited Time and Lean Staff in an Environment of Complex Programs and Financing Options: With a range of financial products and financial services providers for many small businesses, both funders and businesses may be unaware of available options, including potential co-funders and state and federal programs. Several lenders and investors expressed interest in co-funding small business deals, while some state and federal programs noted funds are available and not being fully used. This leads to inefficient program utilization and underutilization of available financing, as noted by a wide range of lenders, investors, and state and federal program staff.

Proposed Solutions:

1. Expand information and training for lenders and investors: Larger lenders and investors often have specialized staff to focus on arranging participation loans and syndications and/or state and federal programs for small business finance. Yet most report lean staffing, without the luxury of specialists in each branch office. Further, many funders may make only a few of these loans or investments each year, so it is often necessary to refresh knowledge of relevant programs for each application. Some programs lenders noted as critically helpful include the Montana Department of Commerce’s SSBCI funding program and several Montana Board of Investment programs. Others include widely used programs such as the US Department of Agriculture’s Rural Development Program and multiple U.S. Small Business Administration programs.

- Where feasible, state and federal agencies and economic development organizations can further streamline application and reporting requirements for lenders. However, these agencies have reporting requirements and are held accountable for the use of public funds and thus face a delicate balancing act to ensure fair, reasonable, and equitable application, contracting, and monitoring of funding.
- To help funders apply for and successfully deploy financing from available programs, easily accessible information is crucial, including business eligibility and decision criteria, geographic coverage, funding conditions, and available financing (loan guarantees, co-funding, credit enhancements, grants, etc.). Some programs also offer business development services, coaching, or other advisory for qualifying businesses and financial institutions.
- Especially for smaller lenders and/or infrequent users of these programs, many lenders noted the complexity of applying for and reporting to state and federal programs as a hurdle, though many programs offer briefing sessions and respond to phone or email queries. However, it may be necessary to expand online trainings, question & answer sessions, and email and/or phone links to experts on how to complete applications for economic development organizations and state and federal programs.

- Expanding online and in-person trainings and briefings at events organized by state associations of lenders, investors, and economic development organizations may be helpful. Building on the capacity, trust, and reach of industry associations, their staff can be trained to respond to relevant questions related to accessing, qualifying for, and complying with programs offered by economic development organizations and state and federal small business programs.

2. Deepen capacity of funders working at the community level: Many community-based lenders and economic development organizations work with limited staff and resources. Building their capacity—through skills-based training, creative use of mentorships, database of specialists, etc.—would reinforce loan portfolio management, risk management, asset-liability management, fundraising, and other operations.

3. Explore shared services: Finance is a volume business with economies of scale, and making small loans or investments often requires similar staff time and costs as for much larger deals. This can lead to unintended consequences of funders shifting to work with larger businesses over time to mitigate costs. To help increase efficiencies, shared services across multiple organizations may be helpful. For example, small community lenders, loan funds, and/or CDFIs could hire and share staff, perhaps working remotely, for grant writing, fundraising, customer acquisition, marketing, regulatory reporting, and other back-office functions.

Photo from Dunrovin Ranch





Market Gap 2 - Limited Liquidity for Onlending: Some lenders and investors noted they are overliquid and seeking more business clients. However, the majority of community-based lenders interviewed reported being starved for capital to onlend or relend to small businesses, and some investment funds are trying to raise additional capital. Smaller community banks, CDFIs, and economic development organizations with revolving loan funds are experiencing more demand for their services, perhaps as traditional bank lenders are being required to tighten their lending criteria. Many community-based lenders noted they are rationing funds and maintaining waiting lists for qualified business borrowers. Strategic public-private partnerships can leverage the expertise, geographic reach, funding, and skills of institutions in Montana to increase funding for small businesses.

Proposed Solutions:

- 1. Scale up existing successful programs:** Several state and federal programs for small businesses have been successfully deployed in response to the COVID-19 pandemic, with many people praising how the Montana Department of Commerce managed the use of ARPA and SSBCI funds over the past three years. Several interviewed for this study also praised the Montana Board of Investment's programs including loan participations and the Intermediary Relending Program (IRP). However, many lenders have used their full allocation of these useful programs. As public and philanthropic funding allows, scaling up these programs may be an efficient way of leveraging the private sector to increase funding for small businesses across Montana. Studying the factors that worked well with these programs would provide a foundation of lessons for future programs on qualifying lenders, risk sharing, criteria for business loans, combinations of loans and grants, funding terms, and other factors.
- 2. Explore new linkages between public and private funding:** Each type of funder can play a role across the broad spectrum of financing for business and economic development. As noted above, several state and federal funding programs are effectively deploying funding through community lenders and economic development organizations. In addition, many lenders, investors, and private foundations already work well together by referring clients, co-financing deals, providing onlending funds, providing credit enhancements such as loan guarantees and subordinate capital, and other collaborations. New models of funding are being explored across Montana through community-based lending and investing, private credit funds, cooperative investment funds, investment crowdsourcing, revenue-based lending, and others. This diversity of roles for funders, risk appetite, and funding terms for small businesses are welcome innovations and should be encouraged and supported.

3. Expand smart subsidies and policy incentives to help address real and perceived risks in small business finance: Montana businesses and funders benefit from several state and federal policy incentives, and it is critical to ensure that organizations are aware of the existing programs and how to use them effectively. Successful aspects of these programs and policies could be used to target strategic industries, underserved populations, and/or distressed or lower-income geographic areas of the state.

- The Montana Board of Investment offers incentives for businesses that create or retain quality jobs by reducing their lending interest rate.
- The federal New Markets Tax Credit program offers tax incentives to attract private investment to distressed communities.
- The Community Reinvestment Act (CRA) encourages national banks, savings associations, and state-chartered banks to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods. Community lenders are proven leaders in reaching small businesses and working across urban, rural, and tribal areas, including populations and geographics that qualify for CRA credits. Some of the larger CDFIs in Montana are able to attract funds from larger regional and national banks that need to increase their exposure to CRA qualified loans. This approach could be expanded to other community lenders.

Next Steps: Exploring these recommendations as well as pursuing others will take the insights of many in Montana's small businesses finance ecosystem. Accelerate Montana will continue to support this effort by gathering and disseminating needed data, convening ecosystem members, and exploring solutions to identified gaps. Accelerate Montana has dedicated resources to lead a multi-year effort that will focus on 1) Increasing financing for rural-based businesses, Native American-owned businesses, and women-owned businesses across Montana, 2) Supporting the growth of technical assistance for entrepreneurs state wide, and 3) Helping develop a skilled workforce prepared to be part of growing businesses. We believe that all three of these efforts will improve the successful deployment of financing and foster inclusive economic prosperity for all Montanans. If you are interested in being part of this effort, [please contact us at Accelerate Montana.](#)