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CAPITAL ACCESS FOR MINORITY SMALL BUSINESSES: COVID–19 RESOURCES FOR AN EQUITABLE AND SUSTAINABLE RECOVERY

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

OF THE

UNITED STATES SENATE

ONE HUNDRED SIXTEENTH CONGRESS

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CAPITAL ACCESS FOR MINORITY SMALL BUSINESSES: COVID–19 RESOURCES FOR AN EQUITABLE AND SUSTAINABLE RECOVERY

THURSDAY, JULY 23, 2020

UNITED STATES SENATE,
COMMITTEE ON SMALL BUSINESS
AND ENTREPRENEURSHIP,
Washington, DC.

The Committee met, pursuant to notice, 10:07 a.m., in Room SD–430, Dirksen Senate Office Building, Hon. Marco Rubio, Chairman of the Committee, presiding.

Present: Senators Rubio, Scott, Ernst, Young, Kennedy, Romney, Hawley, Cardin, Cantwell, Shaheen, Booker, Coons, Hirono, Duckworth, and Rosen.

OPENING STATEMENT OF HON. MARCO RUBIO, CHAIRMAN, A U.S. SENATOR FROM FLORIDA

Chairman RUBIO. Good morning. Today's hearing on the Senate Committee on Small Business and Entrepreneurship will come to order.

I want to thank everyone for joining us, both in person and virtually, for this hearing and sort of getting used to this new normal of doing hearing this way.

I just want to alert everybody. We have two votes. One just started now at 10:00, and so what will happen here at some point is you will see members shifting in and out to try to get into the timing of it. That's the explanation for why you're seeing it.

So I'm going to abbreviate my opening statement just to be able to accommodate all that. Obviously, we don't need to convince everyone about what impact this pandemic has had on all Americans from a health care perspective certainly, but also from an economic perspective.

I also don't think we need to do a lot to convince people that small businesses have been disproportionately impacted by this pandemic, and all small businesses of every kind have been hurt by it across the country.

The purpose of this hearing is to focus specifically on the even greater impact that the pandemic has had on minority-owned small businesses. Bad as it is for all small businesses, it is catastrophic and terrible. It has been even worse, if you can imagine it, among minority-owned businesses.

Part of this disparity can be explained by the sectors that have been hit hardest by the COVID crisis. Construction, restaurants, hotels, transportation, these are sectors of our economy in which minority ownership is high, higher than it is in other sectors.

But the data from the Census Bureau suggests that only 27 percent of small businesses have enough cash on hand to cover 3 or more months of operations. Those numbers, of the number of businesses that have enough cash, is much smaller than 27 percent when we are talking about minority-owned businesses.

So today the major question we face is one of uncertainty. What happens next as communities—some are reopening, partially reopening. Some have reopened and have had to pull back. We are telling people not to go out. We are telling people not to go to places. So, in essence, we are—and they are following our advice, hopefully, but as they do, it has an economic toll. It is hurting all small businesses, but again, we are seeing that disproportionate impact is even higher among those that are minority-owned.

So the two goals we have specifically to address is this disparity and the damage that is being done but also the concern that there will be a disparity in the recovery, that if some of these businesses go under, they will not be there to be able to recover and thrive.

Part of what we have already talked about and continue to talk about as we try to prepare the next round of assistance to small businesses is not just so we can target the relief to more small businesses, but also how do we make sure that assistance reaches the most underserved small businesses as well.

So one of the most important lessons we learned in PPP, some of the answers some from some of the sectors to save more jobs than others. The overall unemployment rate has dropped in April, from an April high of 15 to 11 percent; however, the African American unemployment rate remains at 15 percent. So there is just an example of an employment disparity that we need to address.

There are some clues as to how to go after this. The first is, according to the SBA's data, only three sectors supported more jobs per dollar of PPP funds in low-income areas than they did for the Nation as a whole. So there are three sectors in which PPP funds helped support more jobs in low-income areas than they did nationally. The three sectors were manufacturing, health care and social assistance, and retail. So that tells us there that anything we do to be helpful to those sectors should have a positive outcome or impact on these communities.

Another lesson is about access. Many minority-owned businesses have experienced problems accessing the capital because they lack relationships with SBA-approved lenders.

There has been progress. As a proportion of the total quantity of loans disbursed, minority-owned businesses received PPP loans in equal or greater volume than their share of business ownership in the U.S. economy. I think some of that was due to some of the changes that were made to the program as it went on; for example, allowing as many lenders as possible to participate was key to this progress. We will need to do more.

The CARES Act and the program within it approved 303 Community Development Financial Institutions, CDFIs, approved 171 Minority Depository Institutions, MDIs, and 19 FinTechs, financial technology companies, to provide these loans and more access. So that was helpful, and it is something we want to retain and build on.

So we recognize that right now as we talk about the future, we are in a different place than we were in March when we first started talking about it. Some businesses will need additional short-term relief. Others are going to need access to low-cost, long-term working capital to recover, which was already hard for them to access. It will be even harder after this.

PPP is basically a short-term grant to help keep a business open and their employees on payroll, but the hit that many small businesses are taking is much deeper than just staying open to make up for. They are not going to generate enough revenue in this environment to stay open under the constrictions that we are facing.

So that is why one of my proposals, built on input and ideas that Senator Young first innovated, is proposing an expansion of the SBA 7(a) program to make available targeted long-term, low-interest loans to small businesses that are located in low-income communities. Obviously, that needs to be fleshed out further, but it is something we care about a lot.

So that is what we will keep working on. Ultimately, anything we pass will have to be bipartisan. That has been the tradition of our work on this, both because it is better that way and because it is the only way to get it done. That is what we intend to do. We work very closely with the Ranking Member and Senator Shaheen and Senator Collins who is not a member of this Committee, Senator Lankford as well, who is not a member of this Committee, and then all the members of this Committee who have input. And that is what we intend to continue to do because we need to do something. We need to do it soon, and we need to make sure it is getting to the right people in the right way.

With that, I want to recognize the ranking member, Senator Cardin, for his opening statement.

OPENING STATEMENT OF HON. BENJAMIN L. CARDIN, RANKING MEMBER, A U.S. SENATOR FROM MARYLAND

Senator CARDIN. Well, thank you, Mr. Chairman. I really want to thank you, not just for holding this hearing on access to capital for minority small businesses, but your commitment to deal with the inequities that minority small businesses have in our system.

You have been a leader in bringing us together to try to find effective ways to make sure that those businesses that need the help the most, minority small businesses, small businesses in underserved communities get the attention of this Committee.

I want to thank you for the process that we have been able to use in this Committee to bring about not only a bipartisan product but to get a product that can get to the finish line and provide help to businesses.

Increasing Federal support for minority-owned small businesses as well as small businesses in underserved communities have been my top priority since I joined this Committee in entering the Senate in January 2007, and it has remained my priority as Ranking Member.

My home State of Maryland boasts the highest concentrations of minority-owned and women-owned businesses in the country. So this issue is particularly important to Marylanders.

Decades ago, Maryland leaders recognized the key role entrepreneurship had in efforts to close the wealth gap. In fact, the first Federal set-aside for minority-owned businesses was proposed in 1977 by the late Baltimore Congressman Parren J. Mitchell, who introduced an amendment to a $4 billion Federal public works program that required city and State recipients to set aside 10 percent of the funds for minority-owned businesses.

Congressman Mitchell understood that any plan to shrink the wealth gap in America must include entrepreneurship, and that the Federal Government has an important role to play in helping minority entrepreneurs overcome the historic, pervasive challenges put before them. The most pervasive of those challenges is access to capital.

Mr. Chairman, while our hearing is focused on ensuring an equitable recovery, I feel the need to place today's discussion in historical context.

During a field hearing I held on this topic in September 2018 at Morgan State University, an HBCU in Baltimore, an executive of Harbor Bank, which is one of the few remaining black-owned banks in the country, stressed that lenders working with minorities need to understand borrowers, not only where they are going, but where they have been. It is vital that we in Congress approach this problem with the same understanding.

Minority entrepreneurs' inability to get capital they need to operate and grow their businesses is not new, and, in fact, that minority-owned small businesses have been disproportionately harmed by the COVID–19 recession should not be a surprise.

Prior to this pandemic, lending to minority-owned small businesses still had not returned to their pre-Great Recession levels.

The protests sparked by the deaths of George Floyd and Breonna Taylor have further exposed the public health and economic disparities in communities of color, particularly black communities that have been made worse by the COVID–19 pandemic.

There is a common saying that I have heard many times by black leaders in Maryland: "When America has a cold, black communities have pneumonia." These disparities exist because Civil Rights and true equity are still the unfinished business of America.

More than 50 years ago, the nonpartisan Kerner Commission created by President Lyndon Johnson warned of the negative consequences of continued inequality. The commission wrote in its report that America was headed toward two societies, one black, one white, separate and unequal.

It is no question that our country has made progress in the decades since the Kerner Commission released its report, but there remains a rooted economic divide between communities of color and white America.

In 1968, a typical middle-class black family had less than one-tenth of the wealth of the typical middle-class white family. It is the same today. For black small business owners and minority entrepreneurs, the wealth gap has worsened the disparity in lending.

Minority business owners are two to three times more likely to be denied a loan than nonminority business owners and are more likely to receive less funding and pay higher interest rates on the loans they do receive.

Mr. Chairman, it was with this inequality in mind that Senator Shaheen and I drafted the CARES Act provision instructing SBA and the Treasury Department to issue guidance to financial institutions participating in the Paycheck Protection Program to prioritize loans for underserved small businesses.

Unfortunately, the administration did not issue that guidance, which led to the SBA's IG's finding that the implementation of PPP did not fully align with congressional intent in the CARES Act.

Implementation of PPP was not the only program in which the administration failed to use every tool in its toolbox to prevent minority-owned businesses from falling behind during this crisis.

The administration also failed to implement the EIDL and Emergency Grant Program in a way that would benefit more minority-owned businesses.

So, Mr. Chairman, as we discuss how to ensure an equitable recovery for small businesses today, we must think about the problem historically. We must invest in the programs that we know work—the Minority Business Development Agency, which is the only Federal agency dedicated to supporting minority-owned businesses; the 7(a) Community Advantage Pilot Program, which has a long record of successfully getting capital to minority-owned businesses. I have introduced legislation to make both of these vital initiatives permanent and codified because right now they are not.

We cannot stop there. I was proud to work with Senator Booker to release a plan outlining steps Congress can take to provide greater help for small businesses in underserved communities with regard to startup and operating capital, as well as technical training and mentorship.

The aim of our plan is to ensure that when we make it through this pandemic and we have the next economic downturn, we will have the institutions, programs, and knowledge in place to support underserved small businesses in a timely way.

Mr. Chairman, I want to thank you again for calling this overdue hearing, especially as we in Congress continue to negotiate and debate the next round of economic stimulus.

Last time, we got the funds out the door quickly and helped a lot of people, but far too many minority-owned businesses were left behind. The truth is that even with the CARES Act, there was inequality in how resources were allocated, including inequality in some of the basic underpinnings of the PPP. The primary use of traditional financial institutions to disburse capital meant minority-owned businesses would have a harder time obtaining these important loans, and the focus on payroll made the program less useful to many minority-owned businesses, which not only have fewer employees on average, but are less likely to have any employees at all.

This next stimulus gives us an opportunity to improve the success of the CARES Act and do a better job of providing help to minority-owned small businesses. Let us take advantage of this opportunity to avoid the consequences predicted by the Kerner Commission 50 years ago, so America is not two societies, separate and unequal.

Thank you, Mr. Chairman, and I look forward to hearing from our witnesses.

Chairman RUBIO. Thank you.

So let us move to the witnesses. As I said, there is a vote that started now. It will probably end around 10:45, and then there will be a second vote. So we will try to time it out so someone will be here. I think if we stop and try to restart, it is going to be more complicated.

Our witnesses today are Talibah Bayles. She is the founder and CEO of TMB Tax and Financial Services, which is a full-service tax and revenue planning firm that assists small businesses with financial strategies promoting growth and stability. She sits on the city of Birmingham's Inaugural Small Business Council serving as the chair of the Women Minority and Disadvantaged Business Enterprise Subcommittee, belongs to the National Small Business Association Leadership Council and the National Association of Women Business Owners.

That is a lot of meetings.

Mr. Ron Busby serves as the president and CEO of USBC, which supports African American chambers of commerce and business organizations in their work developing and growing black enterprises. He currently serves on the Pfizer Small Business Counsel, the National Newspaper Publishers Association Foundation board of directors, and the White House African American Leadership Council.

Ms. Fabiana Estrada is the director of Lending for South Florida ACCION. ACCION is a Community Development Financial Institution helping connect underserved communities to needed capital. She was recognized by the U.S. Small Business Administration in 2018 with the Mission-Based Lender Award.

Ms. Marla Bilonick is the executive director of the Latino Economic Development Center. She previously worked at Seedco supporting businesses in Lower Manhattan that were affected by September 11th. She is a member of the board of directors of the National Association of Latino Community Asset Builders, the Montgomery County Comprehensive Economic Strategy Advisory Group, and the Institute for Community Economics.

I thank you all for being here. Why don't we begin with Ms. Bayles because you are here. Thank you for being here. We will begin with your opening testimony and then go to Mr. Busby. We will do it in the order in which I presented, but thank you so much.

STATEMENT OF TALIBAH BAYLES, FOUNDER AND CEO, TMB TAX AND FINANCIAL SERVICES

Ms. BAYLES. Good morning, Chairman Rubio, Ranking Member Cardin, and members of the Committee. My name is Talibah Bayles, and I am the founder and CEO of TMB Tax and Financial Services, a 100 percent black and woman owned firm located in Birmingham, Alabama.

As a small business owner and a small business advocate, I thank you for the opportunity to speak on today's hearing focus of capital access for minority small businesses.

TMB Tax and Financial Services is a full-service tax and revenue planning firm with clients across the United States. We are on a mission to help small businesses thrive with air-tight financial strategies and tools such as small business tax preparation, tax planning, bookkeeping and payroll, and business credit and financing coaching.

I started this company here in the D.C. Metro Area while working for the Department of Justice where I worked for over 12 years. Prior to working for the Department of Justice, I was an employee right here in the Senate, where I worked for 3 years. With over 15 years of Federal Government and small business experience, I made the decision to relocate back home to Birmingham as a full-time entrepreneur. And my company has hit the ground running. So today I have come full circle and am extremely honored to have a seat at the table from this view.

Today's focus on equitable and sustainable small business recovery is vital to the fabric of local, State, and Federal economies. As you know, small businesses employ nearly half of the Nation's workforce. Small businesses have traditionally created approximately 2 million jobs a year.

In Alabama, there are over 400,000 small businesses, which represents 99.4 percent of the State's total business count. However, since the official COVID–19 declaration of emergency on March 13, 2020, small business job creation has declined nationally by 17 percent.

Small business legacies are disappearing. Companies like mine have found themselves on a battlefield trying to assist troops who are fighting without the proper armor.

Of course, there were challenges that existed prior to COVID–19. In the interest of time, I will only highlight two that I believe are the greatest challenges for minority-owned businesses.

The first is the small business survival rate. Eighty percent of small businesses survive their first year. That number drops, however, to 70 percent at the end of the second year. By year five, if businesses are still around, there are approximately 50 percent of small businesses that are still operating.

The second greatest challenge is the credit profile of a typical small business owner. According to NAV's Small Business American Dream Gap Report from 2015, one in five business owners who applied for funding in the last 5 years were denied, and 82 percent of all business owners surveyed did not know how to interpret their credit scores.

I believe the root of both challenges is a small business financial literacy failure. Even further, inequitable access to information and expert-level technical assistance should be the focus on this Committee.

Without the information provided to small business owners through the services of small business tax preparation, bookkeeping and payroll, and financial planning, there will continue to be a lack of access to capital for minority-owned businesses.

Equitable access to information and expert-level technical assistance, it properly equips the small business troops on this COVID–19 battle because now they can see what they are fighting against.

Said differently, equitable access to information allows business owners to see the areas that they need to fortify in their business. If the deficiency is becoming compliant with taxes, well, now they know and now they know how to do it.

If the deficiency is not having an accounting software so that they can produce a profit and loss or a balance sheet to show the health of their business, well, now they know it and now they know how to do it.

If the deficiency is the need to restore personal credit or to build business credit so that they can actually be approved for funding, well, now they know it and now know how to do it.

Equitable access to information and expert-level technical assistance yields equitable access to capital for minority business owners.

TMB Tax and Financial Services has become the perfect blend of small business financial literacy and trusted financial services. Therefore, through my business, I have launched a movement to Get Bankable, and we have experienced wins for our clients during this COVID–19 crisis.

I am a part of a team of six other black women in accounting, financial planning, and bookkeeping that has collectively accomplished over $1.5 million in CARES Act funding for minority-owned businesses. And with a couple more weeks left of PPP, we will surpass this accomplishment.

My clients' high PPP approval rates were accomplished as the result of year-round technical assistance in the areas of tax preparation, bookkeeping, and payroll. Well before this COVID19 crisis, we provided small business financial literacy to our clients.

For our Schedule C entrepreneurs, we trained tax compliance and small business tax strategies. We not only focused on the importance of year-round recordkeeping of business income and expenses, but most importantly, we discussed the importance of reflecting a positive net income on the Schedule C tax form.

We deployed what we call the "leave something for investors and the underwriters" strategy. Without advising our clients of this strategy, we found that most Schedule C entrepreneurs were inclined to "write off" as much of their expenses as possible which results in either a very low net income or a negative net income for the business on the Schedule C tax form.

Those clients that actually deployed the "leave something for investors and underwriters" strategy obtained PPP loans, and those loans ranged between $4,000 all the way to $15,000 for those who applied as Schedule C or Sole Proprietor applicants.

And I think it is very important to note that clients that were approved for the smaller PPP loans were just as happy as if they had received a million dollars because it motivated them to keep their doors open if just for a little longer.

For our corporation entrepreneurs, we trained on the importance of having a formal payroll system in place. We stressed the importance of payroll tax withholding and compliance and the adverse effects of paying through other platforms that do not account for payroll tax compliance.

And because my company is also a payroll provider, we were able to create and maintain formal payroll structures for these small business owners, and this actually allowed business owners to have those quarterly 941 tax forms and other payroll documentation that was required by the PPP process.

So those clients that deployed the strategy for implementing a formal payroll structure, they obtained loans, and some of those loans were between $7,000 to $250,000. So for these approved applicants, that amount translated in the ability to cover payroll and to divert the money saved by that loan into keeping the doors open and other expenses paid for just a while longer.

PPP was a necessary short-term lifeline for small businesses, and it certainly addressed an immediate need for the business owners that were approved. However, to weather the storm over the long run, it is critical that business owners have access to flexible long-term working capital.

Minority businesses often do not have significant cash reserves or access to traditional capital, and any effort of Congress to provide long-term loans with low interest will help sustain these businesses, and I wanted to add that especially coupled with a blend of expert technical assistance with real financial tools so that these business owners can actually be approved for these long-term loans.

In closing, the information that I have shared with everyone today is from the front line. I again state equitable access to information and expert-led technical assistance grants access to capital that businesses owners need.

Small business owners are ready for it, and we expect it. Small business owners whisper stories of courage and strength into the fabric of the American dream.

I grew up seeing the American dream of small business. I practically grew up in my parents' office supply business, Bayles & Company, which was once located on Second Avenue North in Birmingham, Alabama. And today my daughters are practically doing the same thing in my office, with the original Bayles & Company sign donned on the wall. The grit, the successes, the failures, the motivation, the legacy of the small business entrepreneur.

Again, thank you for the opportunity to come full circle and testify today. I wholeheartedly offer my blended background to a continued discussion on what this very important topic is and what it means, and I look forward to working with this Committee in the future.

[The prepared statement of Ms. Bayles follows:]

Capital Access for Minority Small Businesses: COVID-19 Resources for an Equitable and Sustainable Recovery

Talibah M. Bayles

TMB TAX & FINANCIAL
SERVICES

Founder & CEO

Committee on Small Business & Entrepreneurship
United States Senate

July 23, 2020

Good morning Chairman Rubio, Ranking Member Cardin, and Members of the Committee. My name is Talibah Bayles and I am the Founder & CEO of TMB Tax & Financial Services - a 100% black and woman owned firm located in Birmingham, Alabama. As a Small Business Owner and a Small Business Advocate, thank you for the opportunity to speak on today's hearing focus of capital access for minority small businesses.

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Today's focus on equitable and sustainable small business recovery is vital to the fabric of local, state, and federal economies. As you know, small businesses employ nearly half of the nation's workforce (49.2%) (Source: "Small Business Statistics"). Small businesses have traditionally created approximately 2 million jobs a year which accounts for 60-65% of net new jobs a year (Source: "Small Business Statistics"). In Alabama, there are over 400,000 small businesses (actual 401,717) which represents 99.4% of the State's total business count (Source: SBA Office of Advocacy). However, since the official COVID-19 declaration of emergency on March 13, 2020, small business job creation declined nationally by 17%.

Small business legacies are disappearing. Companies like mine have found themselves on a battlefield trying to assist troops who are fighting without the proper armor. Of course, there were challenges that existed prior to COVID-19. In the interest of time, I'll only highlight two that I believe are the greatest challenges for minority owned businesses.

The first is the **small business survival rate**. 80% of small businesses survive their first year. That number drops to 70% at the end of the second year. By year five, if they are still around by then only approximately 50% of small businesses are still operating (Source: "Small Business Statistics").

The is the **credit profile of a typical small business owner**. According to NAV's Small Business American Dream Gap Report from 2015, one in five business owners who applied for funding in the last five years were denied, and 82 percent of all the business owners surveyed didn't know how to interpret their credit scores.

I believe the root of both challenges is a small business financial literacy failure. Even further, inequitable access to information and expert-level technical assistance should be the focus on this Committee as you consider next steps for COVID-19 relief for small businesses. Without the information provided to small business owners through the services of small business tax preparation, bookkeeping, tax planning, financial planning....yes, there will be a lack of access to capital.

Equitable access to information and expert-level technical assistance properly equips the small business troops on this COVID-19 battlefield because they can now see what they are fighting against. Said differently, equitable access to information allows business owners to see the areas that they need to fortify in their business. If the deficiency is becoming compliant with taxes, they know it and now know how to do it. If the deficiency is not having an accounting software so that they can produce a Profit & Loss statement or a Balance Sheet to show the health of their business, they know it and now know how to do it. If the deficiency is the need to restore personal credit or to build business credit so that they can be approved for funding, they know it and now know how to do it.

Equitable access to information and expert-level technical assistance yields equitable access to capital for minority business owners. TMB Tax & Financial Services has become the perfect blend of small business financial literacy and trusted financial services. Therefore, through my business I have launched a movement to Get Bankable. And we've experienced wins for our clients during this COVID-19 crisis. I'm a part of a team of six other black women in accounting, financial planning, and bookkeeping that has collectively accomplished over $1.5 million in CARES Act funding for minority owned businesses. And with a couple more weeks left of PPP, we will surpass this accomplishment.

My clients' high PPP approval rates were accomplished as the result of year-round technical assistance in the areas of tax preparation, bookkeeping, and payroll. Well before this COVID-19 crisis, we provided small business financial literacy to our clients. For our Schedule C entrepreneurs, we trained tax compliance and small business tax strategies. We not only focused on the importance of year-round record keeping of business income and expenses, but most importantly the importance of reflecting positive net income on the Schedule C tax form. We deployed what we call the "leave something for investors and underwriters" strategy. Without advising our clients of this strategy, we found that most Schedule C entrepreneurs were more inclined to "write off" as much of their expenses as possible which results in either a very low net income or even a negative net income for the business on the Schedule C tax form. Those clients that deployed the "leave something for investors and underwriters" strategy, obtained PPP loans ranging from $4,000 to $15,000 as Schedule C/Sole Proprietor applicants. And I think it is very important to note that clients approved for the smaller PPP loans were just as excited and motivated by their approvals because that amount translated in keeping the doors open or expenses paid for just a while longer!

For our corporation entrepreneurs, we trained on the importance of having a formal payroll system in place. We stressed the importance of payroll tax withholdings and compliance and the adverse effects of paying through other platforms that do not account for payroll tax compliance. And because my company is also a payroll provider, we were able to create and maintain a formal payroll structure for these small business owners. This allowed business owners to have quarterly 941s tax forms and other payroll documentation required for the PPP application. Those clients that deployed the strategy for implementing a formal payroll structure, obtained PPP loans ranging from $7,000 to $250,000. For these approved applicants, that amount translated in their ability to cover payroll and divert the money freed by the loan into keeping the doors open or other expenses paid for just a while longer!

PPP was a necessary short-term lifeline for them and certainly addressed an immediate need for business owners that were approved. However, to weather this storm over the long run it is critical that business owners have access to flexible long-term working capital. Minority businesses often do not have significant cash reserves or access to traditional capital and any effort from Congress to provide long-term loans with low interest will help sustain these businesses. Especially when coupled with a blend of the expert-level technical assistance real financial tools needed to be approved for these long-term loans.

In closing, the information that I have shared today is from the front line. I again state equitable access to information and expert-level technical assistance grants access to capital that businesses owners need. Small business owners are ready for it and expect it. Small business owners whisper stories of courage and strength into the fabric of the American dream. I grew up seeing the American dream of small business. I practically grew up in my parents' office supply business, Bayles & Company, which was once located on 2nd Avenue North in Birmingham, AL. And today, my daughters are practically doing the same in my office off Beacon Parkway W in Birmingham, AL where the original Bayles & Company sign is donned on the front wall. The Grit. The Successes. The Failures. The Motivation. The Legacy of the Small Business Entrepreneur.

Again, thank you for the opportunity to come full circle and testify today. I wholeheartedly offer my blended background to a continued discussion on this very important topic and look forward to working with this Committee in the future.

Chairman RUBIO. Thank you.

Mr. Busby?

[No response.]

Chairman RUBIO. I think your microphone is muted. Just stand by one second. There we go.

STATEMENT OF RONALD BUSBY SR., PRESIDENT AND CEO, U.S. BLACK CHAMBERS, INC.

Mr. BUSBY. Thank you, Chairman Rubio, Ranking Member Cardin, and distinguished members of the Committee for the opportunity to share testimony with you this morning. Again, my name is Ron Busby, and I am the president and CEO of the U.S. Black Chambers, Inc., where we serve 145 black chambers located in 42 states, with a membership base of 332,000 members.

U.S. Black Chambers, also known as the USBC, for the past decade has been providing committed, visionary leadership, and advocacy in the realization of economic empowerment. Through the creation of resources and initiatives, we support black chambers of commerce and business organizations in their work of developing and growing black businesses.

As the leading voice for black business owners in the Nation, U.S. Black Chambers stands on our five pillars of service to foster entrepreneurial growth and wealth creation within the black community. Our five pillars of service are advocacy—the U.S. Black Chamber fights for legislation that promotes small business growth, particularly policies that address the challenges of black business owners. Access to capital. The USBC works with financial institutions with a strategic focus on black-owned institutions to create avenues in which black businesses can gain greater access to capital, credit, and other financial institutions. Three, contracting. The U.S. Black Chamber educates members on contract opportunities, helping them increase their capacity to vie for large-scale contracts and offering resources and information that enhance black owners' abilities to compete. Four, entrepreneur training. The USBC provides quality educational opportunities and professional development resources that help our members manage and grow successful businesses; and five, chamber development. The USBC leverages our roles as the national organization to provide technical assistance and leadership training to member chambers, assist with establishment of new black chambers, and facilitate the sharing of best practices and industry data amongst our members.

Decades before the advent of the coronavirus pandemic, historical discrimination has consistently distorted the advancement of black America. The structural and systemic racism continues to this day. Unfortunately, the ongoing economic and health crisis sparked by the pandemic have drastically exacerbated preexisting disparities. Many of them have been stated.

For example, the coronavirus-related labor losses have been especially devastating for black America due to the historical struggles from higher unemployment rates, lower wages, lower income, and the resulting higher poverty rates.

On the health disparities front, black Americans still face the brunt of the crisis. Across the country, black citizens experience

COVID–19-related deaths at rates nearly twice that are present in the population. Remarkably, the rate is three or more times greater in some States.

Clearly, the pandemic and resulting economic disruptors have proved particularly disastrous for the Nation's small business community. Notably, the onslaught of coronavirus closed over 3.3 million, 22 percent, of businesses within a 2-month period from February to April. In that time, black firms suffered at a greater damage among other demographics, as we lost 41 percent of black-owned business, nearly 450,000.

Today's hearing on improving COVID–19 relief resources for minority businesses is opportune, but it is really much more than that. This is an opportunity to change the course of history in a way our country addresses race, discrimination, and equity.

We at the U.S. Black Chambers believe that today's discussion should lead to the creation of equitable and sustainable Federal policy that will address our Nation's most marginalized and underserved entrepreneur population, which are black business owners.

Earlier this month, I provided testimony at the House Committee on Financial Services Subcommittee on Diversity and Inclusion hearing entitled "Access Denied: Challenges for Women- and Minority-Owned Businesses Accessing Capital and Financial Services." I testified that despite the presence of black-owned businesses in many of the Nation's fastest-growing markets, we still experience above the index, economic disruptions and revenue loss before the pandemic in part because black-owned firms are overwhelmingly represented in a high-impact industry, as was stated, lack of accommodation of food service, personal care, luxury service, health care, and social assistance, which I am so happy that Senator Rubio acknowledged because we are already in a weaker financial position.

The U.S. Black Chamber applauds the Committee's recent work to mitigate the pandemic economic impact on small businesses with the CARES Act, and its subsequent relief legislation has deployed over $518 billion to the small business community through the Payroll Protection Plan. Likewise, the CARES Act has provided nearly $140 billion to businesses through the Small Business Administration and the EIDL loan program. Black business owners, though, went largely underserved by the Federal relief programs.

In early May, the SBA's Inspector General report on implementation of the PPP found that the Trump administration was unsuccessful at prioritizing underserved and rural markets. In that same time since, the Department of Treasury and the SBA have worked to correct the structural barriers within the programs. Despite regulatory actions, the truth for black businesses remains. Black-owned firms continue to be overlooked and underserved in the Federal relief measures across the board.

I will be around to address many of the questions as well as the opportunity for a recommendation as we continue this conversation this morning.

Thank you.

[The prepared statement of Mr. Busby follows:]

Testimony of

Ron Busby

On behalf of the U.S. Black Chambers, Inc.

to the

U.S. Senate

Committee on Small Business &
Entrepreneurship

"Capital Access for Minority Small Businesses: COVID-19 Resources for an Equitable and Sustainable Recovery"
July 23, 2020

Testimony of Ron Busby
President & CEO
U.S. Black Chambers, Inc.

Thank you, Chairman Rubio, Ranking Member Cardin, and distinguished Members of the Subcommittee, for the opportunity to share testimony with you today. My name is Ron Busby, and I serve as the President and CEO of the U.S. Black Chambers, Incorporated.

The U.S. Black Chambers (USBC), for the past decade, has been providing committed, visionary leadership and advocacy in the realization of economic empowerment. Through the creation of resources and initiatives, we support African American Chambers of Commerce and business organizations in their work of developing and growing Black enterprises.

As the leading voice of Black business owners in the nation, USBC stands on five pillars of service to foster entrepreneurial growth and wealth creation within the Black community, which includes: 1) Advocacy: the USBC fights for legislation that promotes small business growth, particularly policies that address the challenges of Black business owners; 2) Access to Capital: the USBC works with financial institutions (with a strategic focus on Black-owned institutions) to create avenues through which Black businesses can gain greater access to credit, capital and other financial instruments; 3) Contracting: the USBC educates members on contract opportunities, helping them increase their capacity to vie for large scale contracts, and offering resources and information that enhance Black owners' ability to compete; 4) Entrepreneur Training: the USBC provides quality educational opportunities and professional development resources that help our members manage and grow successful businesses; and 5) Chamber Development: the USBC leverages our role as a national organization to provide technical assistance and leadership training to member chambers, assist with the establishment of new Black chambers, and facilitate the sharing of best practices and industry data among our members.

Decades before the advent of the Coronavirus pandemic, historical discrimination has consistently distorted the advancement of Black America.[1] This discrimination, seeded in structural and systemic racism, continue to plague markets that hurt Black people and their communities today. Unfortunately, the ongoing economic and health crises, sparked by the pandemic, have amplified this archaic trend in disproportionate ways. For example, the Coronavirus-related labor losses have been especially devastating for black America due to historical struggles from higher unemployment rates, lower wages, lower incomes, lack of savings, and significantly higher poverty rates.[2] On the health disparities front, Black Americans still face the brunt of the crisis. COVID-19 related deaths in the Black community are nearly two times greater than our share of the population. Remarkably, the rate is three or more times greater in some states.[3]

[1] https://www.brookings.edu/wp-content/uploads/2020/02/2020.02_DevOfBizInBlackCommunities_Perry-Rothwell-Harshbarger-final.pdf
[2] https://files.epi.org/pdf/193246.pdf
[3] https://www.npr.org/sections/health-shots/2020/05/30/865413079/what-do-coronavirus-racial-disparities-look-like-state-by-state

Notwithstanding these challenges, the exacerbated impacts prove fatal for the nation's small business community. Notably, the onslaught of the Coronavirus-crisis closed over 3.3 million (22 percent) businesses within a two-month period—February to April. In that time, Black firms suffered the greatest damage among any other demographic, as 41 percent of Black businesses were shuttered.[4] This significant decline is the largest on record.

The country's challenges regarding race, discrimination, and equity must be addressed in this auspicious moment. Today's hearing on improving COVID-19 relief resources for minority small businesses is opportune. We, the U.S. Black Chambers, stand hopeful that today's discussion will lead to the creation of equitable and sustainable federal policy that will address our most marginalized and underserved enterprise populations—Black business owners.

Earlier this month, I provided testimony at the House Committee on Financial Services Subcommittee on Diversity and Inclusion's hearing entitled, "Access Denied: Challenges for Women-and Minority-Owned Businesses Accessing Capital and Financial Services." During this hearing, I stated that Black-owned businesses rank among the fastest-growing markets but still grappled significant economic derailment and revenue loss prior to the pandemic, in part, because Black firms are overwhelmingly represented in high-impact industries—like accommodation and food services, personal care and laundry services, healthcare and social assistance, and retail sectors—and, in part, because they were already in a weaker financial position.

While these sentiments remain factually correct, the state of Black enterprise at the onset of the pandemic must, by and large, be attributed to historical impediments that have haunted Black America for centuries. Racial inequality-gaps such as income, health, and housing have widened mainly in the last 30 years. Despite its ubiquitous nature, wealth inequality is cogent among the rest. Ten years ago, whites, on average, had six times the wealth of Blacks. For every $6.00 whites had in wealth, while the Black community only possessed $1.00.[5] Notably, this metric has worsened since then. To date, the ratio of white family wealth to Black family wealth is higher than at the start of the century.[6] This gap is the offspring of biased historical and current policies prevalent in all sectors of American life. As a result, the epicenter of today's hearing and this country's spiraling economic downfall is the racial wealth gap.

To begin, the U.S. Black Chambers, Inc. applauds this Committee's recent work to mitigate the pandemic's economic shock on small businesses. The passage of the *Coronavirus Aid, Relief, and Economic Security (CARES) Act* and its subsequent relief legislation have deployed over $518 billion to the small businesses community through the signature Paycheck Protection Program (PPP). Likewise, the *CARES Act* has provided nearly $140 billion to businesses through the Small Business Administration's (SBA's) Economic Injury Disaster Loan (EIDL) Program.[7] We

[4] https://siepr.stanford.edu/sites/default/files/publications/20-022.pdf
[5] http://www.urban.org/sites/default/files/publication/24491/904611-closing-the-wealth-gap-empowering-minority-owned-businesses-to-reach-their-full-potential-for-growth-and-job-creation.pdf
[6] https://www.brookings.edu/blog/up-front/2020/02/27/examining-the-black-white-wealth-gap/
[7] https://www.sba.gov/page/coronavirus-covid-19-small-business-guidance-loan-resources

appreciate Chairman Rubio, Ranking Member Cardin, and this Committee for rightfully prioritizing Black businesses, among other underserved markets.

While these altruistic efforts have proven beneficial, Black business owners went largely underserved by federal relief programs. In early May, the SBA's Inspector General released a report on the agency's implementation of the PPP requirements. The report found that the Trump administration was unsuccessful at prioritizing underserved and rural markets.[8] In the time since, the Department of Treasury and the SBA have been worked to correct the structural barriers within the programs. Despite regulatory actions, the case for Black businesses still stands—Black-owned firms continue to be overlooked and underserved in all federal relief measures across the board.

Several weeks ago, the Trump Administration released long-awaited public records concerning the $660billion Paycheck Protection Program. Amid the report, the case of structural discrimination against Black business owners remains prevalent. In the program's more than 650,000 loans made above $150,000 to small businesses, only 143 Black-owned companies received a forgivable loan. [9] Fortunately, the U.S. Black Chambers is working to address present disparities within the Black community by creating resources and funding that bridges the exacerbated lapse in federal policy.

To jumpstart recovery, our organization recently launched the *Actions for Economic Equity* initiative to provide sustainable economic recommendations for public policymakers, corporate and private sectors, and the broader community. As such, this plan will bolster support and engagement in Black America. Furthermore, the U.S. Black Chambers, Inc. has rolled out a transformative initiative entitled the "By Black Platform," which mobilizes and promotes millions of Black-owned businesses in one location. This platform, powered by USBC's national network of local Chambers, aims to provide grassroots support to the most vulnerable areas within our business community. Leaving no stone unturned, USBC is forging ahead with industry-leading technology partners to announce a Black business certification program for corporate America. Through this program, we will put the corporate and government sectors' rhetoric to the test. These are just a few actions that USBC is taking to ensure that our community weathers this racially isolated pandemic.

As we mitigate the challenges within our community, we welcome federal legislation that will bolster—not overlook—Black America and close the expanding racial wealth gap. We urge this Committee to pass the House's *Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act* as it resolves many of the structural barriers that the Black business market currently faces. In particular, the legislation extends the PPP loan application period to December 31, 2020, provides a set-aside for smaller firms with fewer than ten employees,

[8] https://www.sba.gov/sites/default/files/2020-05/SBA_OIG_Report_20-14_508.pdf
[9] https://gem.godaddy.com/p/e4bef01?pact=4575-159137878-12776123429-77f3a788d1199d792e91021b27436dc474aaf4fd

Community Development Financial Institutions (CDFIs), and Minority Development Institutions(MDIs), establishes technical assistance grants for small community financial institutions and small depository institutions and provides federal guarantees for COVID-19 loans.[10] These provisions, among others, must be incorporated into the forthcoming economic relief bill.

During the June 10 Senate Small Business Committee hearing, Treasury Secretary Steve Mnuchin announced that the federal government would need a far more targeted approach in deploying future small business relief. Similarly, we believe that Congress must multiply their initial efforts to safeguard Black enterprise in the days and weeks ahead to alleviate further damage and save a generation of Black and Women-owned enterprises.

As the number of Coronavirus cases continues to grow by the thousands and more Black lives and Black-owned businesses succumb to the pandemic, the likelihood of an economic rebound of Black America is highly improbable. Our country cannot afford –literally –to enact policies in the next economic relief package that are not tailored to the needs of these underserved entrepreneurs.

To that end, the U.S. Black Chambers, Inc. calls on Congress to address the structural barriers that consistently avert wealth-building opportunities from the Black community. Policymakers must implement equitable solutions that will provide Black entrepreneurs and small business owners with capital resources and technical assistance to overcome the hurdles of racial disparities and systemic discrimination. These legislative solutions should:

Provide immediate support to traditionally underserved markets

While the PPP and EIDL programs have aided the broader small business community, historically underserved borrowers, specifically Black borrowers, have overlooked private lenders and government agencies. These federal relief programs are structured to favor well-connected and credit-worthy participants— altogether challenges for Black firms.

Despite the previous efforts on behalf of lawmakers to bridge the equity-gap by setting aside resources for mission-based lenders, many underserved firms still went unserved. As such, these policy-measures are merely patches to the more massive laceration of equity-gap and wealth-inequality

To mitigate these issues, we urge lawmakers to pass targeted legislation that will provide Black enterprises, among other underserved groups, with additional appropriations to withstand the current crisis. The next legislative package must: 1) provide additional set-asides for mission-based lenders; 2) create widespread loan forgiveness on PPP loans made under $150,000; 3) prioritize liquidity for sole-proprietorships and firms with ten (10) or fewer employees; 4) create a small business local relief program to provide local communities with recourses to aid

[10] https://smallbusiness.house.gov/uploadedfiles/heroes_act_section_summary.pdf

businesses as mentioned in the *Recharge and Empower Local Innovation and Entrepreneurs Fund (RELIEF) for Main Street Act.*[11] and 5) allow distressed PPP loan borrowers to receive a second loan as mentioned in *the Prioritized Paycheck Protection Program (P4) Act*.[12]

Implement structural changes within the SBA

Each year, the SBA's core programs assist millions of small business owners and entrepreneurs with the opportunity to seed and scale their ventures through access to capital solutions and technical assistance support, among others. By and large, the 7(a) Community Advantage, 504, Microloans, and Disaster loans prove helpful to the Black entrappers seeking to start their businesses.

Nevertheless, to ensure that these programs continue to benefit vulnerable populations, Congress must provide concrete resources to regulatory avenues. We urge legislators to modify the mentioned programs to improve alignment with federal relief efforts such as wavering 7(a) and 504 loan fees, expanding the liquidity availability of all programs, and providing program borrowers and lenders with less-restrictive repayment rules amid the ongoing economic recession. We endorse the policy solutions related to SBA loan programs presemted in *the Equity in COVID-19 Recovery Act of 2020.*[13]

Expand the reach of the MBDA at the Department of Commerce

Since its creation nearly 50 years ago, the Minority Business Development Administration (MBDA) at the Department of Commerce has supported Minority Business Enterprises (MBEs) the growth of Black-owned firms in this nation. Through the MBDA, the federal government has provided necessary resources for Black enterprises to expand the reach of their business and improve performance patterns. In return, Black companies have created millions of jobs and contributed billions to the nation's economy.[14]

We urge Congress to pass legislation that will formally codify the MBDA into law, implement a certification program for Black businesses, increase the agency's appropriations to help Black enterprises during post-pandemic recovery, create entrepreneurial pipelines at historically Black colleges and universities (HBCUs), and expand the reach of the agency by establishing regional entities nationwide.

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[11] https://www.booker.senate.gov/imo/media/doc/RELIEF%20for%20Main%20Street%20Act%20two%20pager_FINAL.pdf

[12] https://www.sbc.senate.gov/public/index.cfm/2020/6/cardin-coons-shaheen-introduce-legislation-to-get-capital-to-small-businesses-hardest-hit-by-covid-19

[13] https://www.sbc.senate.gov/public/_cache/files/9/0/90135abe-b624-478e-b638-4e3b4fd1dc67/B5DC0FBD2B8E5B404CAFBB855F9F51CE.-final-equity-in-covid-19-recovery-act-white-paper.pdf

[14] https://www.mbda.gov/sites/mbda.gov/files/migrated/files-attachments/DisparitiesinCapitalAccessReport.pdf

Testimony of Ron Busby
President & CEO
U.S. Black Chambers, Inc.

Moreover, these legislative actions must include the formation of an interagency council within the administration to track the creation and performance of Black markets in the coming years. As we know, private sector markets tend to be inherently inequitable. The creation of a federal entity that tracks discriminatory trends within the small business ecosystem will bolster the number of Black enterprises, produce generational wealth, and in return, close the racial wealth gap.

Lastly, the U.S. Black Chambers, Inc. endorses *the Minority Business Resiliency Act of 2020.*[15] Congress must work to swiftly pass this legislation as it is slated to implement several of the aforementioned recommendations.

Provide additional support for Black contractors

As noted, the SBA's 8(a) Business Development Program has been an essential tool to incubate partnerships between Black-owned businesses and Government entities. While this program is widely successful, the program's integrity must be protected to ensure that it continues to benefit Black-owned businesses. As it stands, there is little data to show that Black firms are still benefiting from this critical program.

The 8(a) program must include a data tracking mechanism so that Black businesses aren't overlooked among other participating markets. Likewise, we call on lawmakers to reform the program's structure to prioritize Black firms between FY 2021 and 2026. This timeline will provide an unprecedented increase in Black contracts and spark a new avenue of wealth-accumulation for Black entrepreneurs.

Reauthorize the Prompt Payment Initiative

The "QuickPay" Initiative, launched under the Obama Administration, required all federal agencies to expedite payments to small business contractors with the goal of paying within 15 days. This cut in half the time it took for small contractors working with the federal government to get paid. This expediency is essential to small businesses, as delay in payments can cause uncertainty, closure, or the need to take out a short-term bridge loan to keep the doors open while awaiting payment. It is arguably even more critical during this crisis, given the disproportionate impact that underserved markets face. Legislators must ensure that the QuickPay measure is included in all forthcoming FY2021 appropriation packages.

Among many others, these critical proposals are featured in our Actions for Equity proposal and 2020 BLACKprint agenda. In both inactivates, we aim to provide concrete solutions for policymakers to safeguard the Black business community in the weeks, months, and years ahead. Please visit our website at www.usblackchambers.org to learn more about our bipartisan solutions.

Conclusion

[15] https://www.sbc.senate.gov/public/index.cfm/2020/7/cardin-cantwell-schumer-booker-cortez-masto-harris-introduce-legislation-to-invest-in-minority-owned-businesses

Testimony of Ron Busby
President & CEO
U.S. Black Chambers, Inc.

The U.S. Black Chambers, Inc. remains appreciative of this Committee's attention to equity and access on behalf of the nation's nearly 3 million Black-owned businesses. Despite the current state of Black-owned firms and the challenges that persist, swift Congressional action rooted in equitable intention will mitigate the bleeding of Black America and set us on the road to true economic justice and wealth-accumulation. USBC is thankful for the ability to provide testimony, and we look forward to answering any questions.

Senator CARDIN [presiding]. Mr. Busby, let me thank you for your testimony. As you can see, we are doing a little bit of rotating here. There are two votes on the floor of the U.S. Senate. So Senator Rubio just went over to the floor to vote. I have already voted on the first vote. He will wait for the two votes and then come back. So we are going to continue with the witnesses, and we thank you very much for your understanding and patience.

This is an extremely important hearing, and I can assure you that we are listening to all the testimonies, and we value your input.

We will now turn to Ms. Estrada. Glad to hear from you remotely. Hope you are safe.

STATEMENT OF FABIANA ESTRADA, DIRECTOR OF LENDING SOUTHEAST REGION, ACCION

Ms. ESTRADA. Hi. How are you? Good morning, Chairman Marco Rubio, Ranking Member Cardin, and members of the Committee. Thank you for inviting ACCION to testify about the recuperation phase for the small business owners during the COVID–19 pandemic.

As Chairman Rubio just introduced, I represent ACCION, a Community Development Financial Institution, CDFI, whose role is to provide financial services in the form of access to capital and economic education in low- to moderate-income areas, LMI.

ACCION also assists underserved small business owners with the objective to be considered by the traditional financial system in the near future.

ACCION began funding small business owners back in 1991 in New York City. Last year, we supported over 1,000 small business owners with $15 million in capital through microloans, traditional microloans and also SBA microloans, and SBA Community Advantage loans. We disbursed over $1 million per month in 2019.

2020 started with the implementation of our traditional industry-related products, like the one supported by the Tory Burch Foundation for women entrepreneurs, Brewing the American Dream supported by Samuel Adams that supports food and beverage entrepreneurs, and our Child Care Express Program which supports child providers throughout the State. However, the pandemic immediately had us to implement a recovery program. One such important program that we implemented was our Paycheck Protection Program response.

Our response has been threefold. First, we educate our clients on the criteria and eligibility. We found that many minority-owned businesses were confused about the conditions on who could apply. For example, some business owners were not aware that they could apply as sole proprietors. Second, we created an easy process for those borrowers who found themselves left out by their traditional lenders. Third, we implemented a technical assistance component to the process to help ensure that our clients' loans are going to be forgiven.

We worked to certify that the correct forms were completed so that the loan amounts were accurate and effective.

In addition, our business owners needed guidance on proper documentation on how to use those funds for the loan to be forgivable in the near future. All these steps were done on a one-on-one basis by our organization.

To date, in Florida we have disbursed $970,000 to 87 minority-owned businesses. Our average loan size is around $11,000.

At ACCION, we used to say that "we offer more than a loan," and during this pandemic, we have continued to live out this teaching. We serve minority-owned businesses who without our support would have been left out of the PPP program.

One such client we supported through this process was Myriam Encio. She is the owner of Pet Avenue Grooming and Boarding, located in Allapattah, but here it is called the "Little Santo Domingo in Miami." Myriam approached us with a business that had proven steady gross sales that is around $200,000 yearly and a strong net income of $63,000. However, her business had no W–2 employees, and nobody was there to guide her with her application or to help her think through how to sustain her independent contractor employees.

A local community organization introduced her to ACCION, and we were able to process her PPP in the amount of $12,000 to keep her store open. Due to the pandemic, she has to follow current guidelines and open at a limited capacity. The PPP loan allowed her to pay her groomers, skilled in working with furry clientele. If not for the PPP program, Myriam would no longer have been able to support paying her groomers. She would have lost her skilled labor.

Due to the pandemic, Myriam had to redesign her business. She has gone mobile for booking appointments and for managing client visits.

A second wave of PPP will benefit Myriam and others like Myriam with access to capital to a level where she could pay accordingly and invest in her sustainability as she works to stay open through these very insecure times.

In conclusion, a small business owner, in particular, minority-owned businesses, have other capital needs that has to be addressed in order to stay open and keep their employees employed. Extending the PPP will allow organizations like ACCION to continue to play an important role in serving the most vulnerable with a small loan amount, with SBA and microloans as well, with the community advantage as well, and the traditional microloan program, so business could remain open.

Furthermore, clients need advice on how to re-envision their businesses, and here at ACCION, we can play that important role of getting funds to those that need it most.

My last words will be for gratitude for your interest in mission-based organizations like ACCION and to your technician and your team that they were able to make this online meeting possible.

Thank you very much.

[The prepared statement of Ms. Estrada follows:]

ACCION

Launching Dreams, Empowering Entrepreneurs

Statement of Fabiana Estrada

- Director of Lending SE Region-

before the

Senate Committee on Small Business & Entrepreneurship

Hearing on:

"Capital Access for Minority Small Businesses: COVID-19 Resources for an Equitable and Sustainable Recovery"

July 23rd, 2020

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$12K to keep her store open. Due to the pandemic she has had to follow current guidelines and open at a limited capacity. The PPP loan allowed her to pay her groomers, skilled in working with furry clientele. If not for the PPP program, Myriam would no longer have been able to support paying her groomers. She would have lost valuable skilled labor. Due to the pandemic Myriam has had to redesign her business. She has gone mobile for booking appointments and for managing client visits. A second wave of PPP will benefit Myriam with access to capital to a level where she will pay accordingly and invest in her sustainability as she works to stay open through these very insecure times.

https://www.petavenue.net/

In conclusion, small business owners in particular minority owned businesses have further capital needs that they need addressed at this time in order to stay open and keep their employees employed. Extending the PPP, will allow organizations like ACCION to continue to play an important role in serving the most vulnerable with small, forgivable loans so that businesses remain open. Furthermore, clients need advice on how to re-envision their businesses. We at Accion can play that important role of getting funds to those that need it most.

My last words will be those of gratitude for your interest in mission-based organizations like ACCION.

Senator CARDIN. Ms. Estrada, thank you again for your testimony. We appreciate it very much.

Our final witness will be Marla Bilonick, who is the executive director of the Latino Economic Development Center, which is one of the largest SBA microlenders in the State of Maryland.

Ms. Bilonick?

STATEMENT OF MARLA BILONICK, EXECUTIVE DIRECTOR AND CEO, LATINO ECONOMIC DEVELOPMENT CENTER

Ms. BILONICK. Thank you very much.

Good morning, Chairman Rubio, Ranking Member Cardin, and members of the Committee. It is my sincere honor to be speaking with you all today about the challenges that minority-owned businesses are facing in light of the COVID–19 pandemic and how your decisions can positively impact their return, recovery, and rebuilding. My name is Marla Bilonick, and I am the executive director and CEO of the Latino Economic Development Center, LEDC, and I am also a mom. I have my daughter right here next to me.

LEDC is an organization that is 29 years old with the mission to drive the economic and social advancement of low- to moderate-income Latinos and other underserved communities in the D.C. and Baltimore Metropolitan Areas as well as Puerto Rico.

We operate out of six offices, with over 50 professional and bilingual staff providing top-notch, culturally competent services to our clients. On an annual basis, we serve well over 5,000 low- to moderate-income residents, 90 percent of which represent an ethnic or racial minority.

We are an SBA Microlending Intermediary, an SBA Community Advantage Lender, a USDA-designated Rural Lender, and certified Community Development Financial Institution, CDFI.

Since we began lending in 1997, we have rolled out close to $20 million in capital in small business and consumer loans. We have forged close and longstanding relationships with the businesses in the communities we serve, and to say they are struggling given the implications of COVID–19 would be a severe understatement.

Our businesses are fighting to stay open, keep their employees on payroll, and work on their businesses while caring for children that are at home indefinitely.

These blows to businesses come at the grave cost of business owners' livelihoods and the livelihoods of the people they employ. The ripple effect on communities will be felt for months and years to come.

This year, we have led the charge in our region providing PPP loans to small businesses in the markets we serve. This was no easy feat, as we had to hustle to fundraise for the liquidity needed to make PPP loans on an extremely tight timeline as well as aggressively assert our eligibility to provide PPP as a certified Community Advantage Lender.

An analysis of our PPP loans to dates shows that 84 percent went to minority-owned businesses and 62 percent to women-owned businesses. Eighty-two percent of all of our PPP loans were made to businesses in the following six industries: food, health, construction, consulting, cleaning, and child care.

To give you a sense of the demand for COVID-related assistance that we have seen, we have provided PPP loans to almost 100 small businesses since late April. For context, our organization typically provides around 200 small business loans per year. So, in just one quarter, we have done almost half of our traditional annual volume of loans with just this one product.

We have also partnered with local governments to help deploy their small business COVID financial assistance products. For example, in partnership with the District of Columbia's government, we have provided $4.5 million in micrograrts to just over 1,100 businesses since April.

Our staff has been working literally around the clock to serve as many businesses as we can humanly support.

At the national level, the PPP program has not been as successful in reaching true mom-and-pop, minority-owned small businesses as it could be. I was pleased to see the CDFI set-aside that came into play during the second round of PPP funds in May. However, it feels like engaging CDFIs was an afterthought, which is puzzling when CDFIs have historically been the most highly leveraged tool that commercial banks have used to reach the hardest-to-reach populations in the United States. Of the more than 5,400 PPP lenders, only 303 are CDFIs as of the SBA's July 20th PPP report, yet in under 3 months, those very CDFIs made a total of $7.5 billion in PPP loans.

Our average PPP loan made has been around $30,000, and our overall PPP efforts stand to retain 373 jobs to date. As of July 20th, the Nation's average PPP loan size was $105,000, and nearly 87 percent of all PPP loans were for less than $150,000, which is to say that the PPP program investment stands to have substantial impact if distributed properly and equitably.

It is extremely disheartening and disappointing to see high-wealth individuals with direct ties to the Trump administration accepting PPP loans in the $350,000-to-$5-million range. With the funds in just one of the PPP loans made to the likes of the Kushner family, Elaine Chao's family, or Kanye West, a CDFI like LEDC could have helped more than 10 times the businesses we have been able to support to date, retaining at least 3,700 community jobs. This is a glaring example of the perpetuation of systemic inequality that has rightfully propelled our country into civil unrest in the past weeks.

In May, Senators Cardin and Booker penned a white paper that contains practical suggestions for preventing underserved small businesses from falling even further behind than they already have due to the implications of COVID, disproportionate to the general small business population. We are particularly encouraged by the following recommendations of this proposal: the recommendation to allocation $1 billion in emergency appropriations to the CDFI fund to increase liquidity for CDFIs; the suggestion to create an Office of Emerging Markets specifically focused on and more attuned to the needs of underserved communities; recommended support for SBA's core programs to expand them and make them more affordable; the suggestion to move SBA Community Advantage from pilot designation to permanent program status; and recommendations around expanded support for minority-owned, women-owned, and returning citizen-owned businesses.

The House of Representatives has taken an important first step by including $1 billion in grants to CDFIs in the HEROES Act. Congressional leaders on both sides of the aisle understand that CDFIs are the lenders to reach the businesses that have been left out of PPP for the most part. The Senate and administration must approve $1 billion in rapid response CDFI fund grants.

In addition to financial resources, small businesses affected by the implications of COVID–19 require technical assistance to navigate their new reality. They have sought out support from LEDC in the areas of legal advice, which includes commercial lease negotiation, accounting, and reimagining their businesses for survival in this new time. We have helped countless clients with adding e-commerce, take-out, and delivery options into their business models.

It is worth noting that funding made available through the CARES Act restricts access to funding to provide entrepreneurial assistance, 80 percent, to SBA-designated Small Business Development Centers, the vast majority of which are operated by the universities and colleges and a small portion, 20 percent to SBA's designated Women's Business Centers. The legislation does not recognize that SBDCs and WBCs are not the only critical elements of our Nation's infrastructure for providing entrepreneurial assistance.

In closing, while there are many stories that make the evening news around unicorn businesses that have turned the pandemic's lemons into lemonade, the distillery that is making hand sanitizer or the T-shirt company that is making face masks, the truth is that the majority of small businesses are in trouble.

I am very grateful to this Committee for considering my remarks and for the time and effort you dedicate to making sure America's small businesses survive and thrive during these unprecedented times.

Thank you so much for your time. I look forward to our discussion.

[The prepared statement of Ms. Bilonick follows:]

LATINO ECONOMIC DEVELOPMENT CENTER

Testimony of Marla Bilonick

Executive Director/CEO, Latino Economic Development Center-LEDC

Provided to the Committee on Small Business

July 23, 2020

Good Morning Chairman Rubio, Ranking Member Cardin, and members of the Committee. It is my sincere honor to be speaking with you all today about the challenges that minority-owned businesses are facing in light of the COVID-19 Pandemic and how your decisions can positively impact their return, recovery, and rebuilding. My name is Marla Bilonick and I am the Executive Director and CEO of the Latino Economic Development Center-LEDC.

LEDC Background

LEDC is a 29-year old community development financial institution (CDFI) with the mission to drive the economic and social advancement of low-to moderate-income Latinos and other underserved communities in the D.C. and Baltimore Metropolitan Areas, as well as Puerto Rico, by equipping them with the skills and tools to achieve financial independence and become leaders in their communities. We operate out of 6 offices, with over 50 professional and bilingual staff providing top-notch, culturally competent services to our clients. On an annual basis we serve well over 5,000 low- to moderate-income residents. Scanning all of our programs, the majority of our clients are Latino (60%) and a sizeable portion are African-American/Black (30%). The remaining portions are White/Caucasian and Asian (10%, combined). Our core asset-building programs are: Housing Counseling, Affordable Housing Preservation; Small Business Capacity Building; and Small Business Lending. We are a SBA Microlending Intermediary, a SBA Community Advantage Lender, a USDA-designated Rural Lender, and certified Community Development Financial Institution (CDFI). LEDC receives support for our small business services from partners including the Small Business Administration, CDFI Fund (Treasury), private corporations, and philanthropic foundations.

Impact of COVID-19 on our Small Business Clients

Since we began lending in 1997, we have rolled out close to $20 million in capital in small business and consumer loans. We have forged close and longstanding relationships with the businesses in the communities we serve and to say they are struggling given the implications of COVID-19 would be a severe understatement. Our businesses are struggling to stay open, keep their employees on payroll, and work on their businesses while caring for children that are at home indefinitely. Business closures in the food and retail industries have crippled businesses and many of our clients will never reopen. In addition, given that we serve businesses in Washington, DC and the surrounding Maryland and Virginia suburbs; some of our clients were hit by fresh challenges that resulted from the civil unrest that has justly erupted in our nation due to the centuries-long parallel pandemic of racial injustice and inequality that plagues our country. These blows to businesses come at the grave cost of business owners' livelihoods and the livelihoods of the people they employ. The ripple effect on communities will be felt for months and years to come.

Observations on the Paycheck Protection Program

This year, we have led the charge in our region providing PPP loans to small businesses in the markets we serve. This was no easy feat, as we had to hustle to fundraise for the liquidity needed to make PPP loans on an extremely tight timeline; as well as aggressively assert our eligibility to Treasury and SBA to provide PPP as a certified Community Advantage Lender. An analysis of our PPP loans to date shows that 84% of our PPP loans went to minority-owned businesses and 62% of our overall PPP loans were distributed to women-owned businesses. 82% of all of our PPP loans were made to businesses in the following six industries: food, health, construction, consulting, cleaning, and child care.

To give you a sense of the demand for COVID-related assistance that we have seen---we have provided PPP loans to almost 100 small businesses since late April. For context, our organization typically provides around 200 small business loans per year. So, in just one quarter, we have done almost half of our traditional annual volume of loans with just this one product. We have also partnered with local governments to help deploy their small business COVID financial assistance products. For example, in partnership with the District of Columbia's government, we have provided $4.5 million dollars in microgrants to just over 1,100 businesses since April.

The impact of closures and resulting lost revenue on our small businesses cannot be underestimated. The need is unbelievably high, even just in our relatively small national footprint. Our staff has been working literally around the clock to serve as many businesses as we can humanly support. I would be remiss if I did not take this opportunity to say how inspired I have been to see my staff rise to the occasion and sacrifice sleep, meals, relaxation, and time with their families to be in service to our small business clients. I am certain that this level of dedication is mirrored by staff at CDFIs across the nation.

At the national level, the PPP program has not been as successful in reaching true "Mom and Pop" minority-owned community small businesses as it could be. I was very pleased to see the CDFI set aside that came into play during the second round of PPP funds in May. However, it does feel like engaging community-based CDFI's was an afterthought---which is puzzling when CDFIs have historically been the most highly-leveraged tool that commercial banks have used to reach the hardest-to-reach populations in the United States. Of the more than 5,400 PPP lenders, only 303 are CDFIs as of the SBA's July 20th PPP report. Yet, in under 3 months, those very CDFIs made a total of $7.4 billion dollars in PPP loans. I cannot recommend more strongly the importance of deliberately and thoughtfully engaging local CDFIs that already have deep reach and trust in underserved communities where they work on the ground every day.

Our average PPP loan made has been around $30,000 and our overall PPP efforts stand to retain 373 jobs to date. Had we been able to raise more capital during the PPP program period, we would have had sufficient liquidity to make an even more significant impact on the communities we are called to serve. As of July 20th, the nation's average PPP loan size was $105,000 and nearly 87% of all PPP loans were for less than $150,000. Community jobs are being preserved at relatively low loan amounts. Which is to say that the PPP program investment stands to have substantial impact if distributed properly and equitably.

It is extremely disheartening and disappointing to see high-wealth individuals with direct ties to the Trump Administration accepting PPP loans in the $350K-$5MM range. With the funds in just one of the PPP loans made to the likes of the Kushner family, Elaine Chao's family, or Kanye West, a CDFI like LEDC could have helped more than ten times the businesses we have been able to support to date, retaining at least 3,700 community jobs. This is a glaring example of the perpetuation of systemic inequality that has rightfully propelled our country into civil unrest in the past weeks. We are at a crossroads in our country and there is very little, if any, patience left for the practices that favor the 1% percent at the expense of the everyday American that is struggling to make a living. Frustrations will only intensify under the increasingly challenging times and economic pressures brought on by the pandemic.

Additional Considerations and Recommendations

In May, after the Inspector General's report that cited that "the SBA's failure to issue guidance to prioritize underserved and rural markets in the Paycheck Protection program 'did not fully align' with the Congressional intent of the CARES Act" Senators Cardin and Booker penned a white paper. The document contains practical suggestions for preventing underserved small businesses from falling even further behind than they already have due to the implications of COVID----disproportionate to the general small business population. Our organization stands behind the recommendations in this proposal, and we are particularly encouraged by:

- The recommendation to allocate $1 billion in emergency appropriations to the CDFI Fund to increase liquidity for CDFIs,
- The suggestion to create an Office of Emerging Markets that is specifically focused on and more attuned to the needs of underserved communities,
- Recommended support for the SBA's core programs (7a, Microloan, and 504) to expand them and make them more affordable,
- The suggestion to move SBA Community Advantage from pilot designation to permanent program status,
- Recommendations around expanded support for minority-owned, women-owned, and returning citizen-owned businesses.

The House of Representatives has taken an important first step by including $1 billion in grants to CDFIs in the HEROES Act — Congressional leaders on both sides of the aisle understand CDFIs are the lenders to reach the businesses that have been left out of PPP for the most part. The Senate and Administration must approve $1 billion in rapid response CDFI Fund grants.

I would also suggest the consideration of support for CDFIs that are, like many American businesses, also facing revenue losses. As we have worked to restructure and defer our clients' loan payments, we are forgoing interest income that at least partially covers our lending operations. We are grateful for the SBA's debt relief provisions, but our non-SBA loans are not accompanied by such relief and imply significant revenue losses in the short term.

While I am here and afforded the platform to suggest legislative improvements that could expand support for small businesses, I wanted to take the opportunity to mention the 1/55 rule. The 1/55 rule was authorized in the original statute establishing the SBA microloan program and requires that for the first two quarters of the fiscal years, funding to intermediaries is limited to the lower of $800,000 or 1/55 of new funds appropriated The purpose of this rule was to ensure the microloan program is generally available to all states and not concentrated in just a few.

Today, the Microloan program is widely available; there are 147 active intermediaries working in 49 states, the District of Colombia, and Puerto Rico. However, these organizations are in most cases unable to borrow additional loan fund the third or fourth quarter of the fiscal year. This creates an administrative bottleneck for the agency, cash availability and paperwork nightmare for intermediaries.

The last few President's budgets have proposed eliminating the 1/55th rule. Doing so will allow the SBA to more efficiently and effectively get funds to the intermediary lenders where and when the funds are needed. Striking 1/55 will not impede the funding opportunities for intermediaries, as the microloan statute also includes a provision requiring equitable distribution of funds.

Entrepreneurial Technical Assistance

In addition to financial resources, small businesses affected by the implications of COVID-19 require technical assistance to navigate their new reality. The majority of businesses we've provided PPP loans and/or access to local and state financial assistance have needed extensive support with preparing their applications and gathering the necessary documentation the applications require. They have also sought out support in the areas of legal advice (which includes commercial lease negotiation) accounting, and re-imagining their business for survival in this new time. We have helped countless clients with adding e-commerce, take-out, and delivery options into their business models.

It's worth noting that funding made available through the CARES Act restricts access to funding to provide entrepreneurial assistance primarily (80%) to SBA designated Small Business Development Centers (the vast majority of which are operated by universities and colleges) and a small portion (20%) to SBA designated Women's Business Centers. The legislation does not recognize that SBDCs and WBCs are <u>not</u> the only critical elements of our nation's infrastructure for providing entrepreneurial assistance and that, of the two programs, WBCs would be better suited to reach the needs of minority-owned businesses. Often, minority business owners are better served by community-based non-profits that focus on providing culturally and linguistically tailored entrepreneurial counseling to their specific target community.

The SBDC impact overview provided on their website indicates that only 28% of the clients served are "minority" of some kind. Channeling funding through intermediaries that have a proven track record of delivering these services to underserved entrepreneurs is a better conduit for getting resources to those hardest hit by the pandemic. If stimulus money needs to flow through the SBA budget, through an already established resource partner, then we suggest that they remember the category of SBA resource partners that were overlooked in the CARES Act: Intermediaries funded under the SBA PRIME Program Track 2 in the past four or five years. The total funding amount should be at least the same amount provided to Women's Business Centers in the original CARES Act.

Client Profiles

I will end with two client profiles that illustrate the impact of the pandemic on small businesses:

Little Angels Child Development is a Latina-owned day care center that has the capacity to serve seven families in Washington, DC. As of March 31, only three of their core clients have confirmed that they are considering staying in the day care program---subject to how the pandemic progresses in the area. As a result, they were not able to retain all of their employees. They sought a PPP loan from LEDC to keep their remaining employees on staff and continue to provide services to the three families that have stayed on. With the PPP loan the business owner was able to keep her staff on board, as well as re-hire those she had temporarily laid off.

Arepa Zone is a hugely successful minority/woman-owned business that started off selling frozen Venezuelan traditional foods door to door. From there, they launched a food truck and went on to win a pitch competition with the prize of a year of free rent at Union Market, a food hall in Washington, DC. They have sought several loans from LEDC which culminated in their opening a brick and mortar restaurant in Washington a few years ago. They've also since forged successful partnerships with Nationals' Park and the Audi (Soccer) Stadium in the District. During the pandemic they have struggled to stay afloat. But, their resourcefulness has kept them going. They partnered with World Central Kitchen to provide meals for local nonprofits, but that partnership is coming to a close. In a recent online plea to their loyal customer base they stated, "We want to keep our staff on board and provide as much stability for them as possible during this time...with a new surge in COVID cases, our business will continue to struggle. We are humbly asking for your support."

In Closing

While there are many stories that make the evening news around "unicorn" businesses that have turned the pandemic's "lemons" into "lemonade"---the distillery that is making hand sanitizer, or the t-shirt company that is making face masks...the truth is that the majority of small businesses are in trouble. I'm very grateful to this committee for considering my remarks and for the time and effort you dedicate to making sure America's small businesses survive and thrive during these unprecedented times.

Thank you so much for your time. I look forward to our discussion.

Chairman RUBIO [presiding]. Thank you so much.

I am going to turn it over to Senator Young to start. My only request is that apparently our—are those on the WebEx? If you would just make sure your mic is turned up as loud as you can, just because there are some challenges over here from time to time listening to it, so thank you.

Senator Young?

Senator YOUNG. Thank you, Mr. Chairman.

I know all of us feel a share of ownership for the PPP program, but I want to commend you and members of your team for helping to put that program together and get it done. It has provided major relief to thousands of hardworking Hoosiers.

Of the nearly 80,000 Indiana businesses that have received PPP loans, over $9 billion in total, over 85 percent of these businesses received loans under $150,000. So we know that this program has fulfilled its intent, helping those smaller enterprises.

Ms. Bayles, you have experience working with a diverse mix of small businesses, particularly those firms who have been applying for PPP loans. In your testimony, you state that PPP was a necessary short-term lifeline; however, to weather this storm over the long run, you indicate it is critical that business owners have access to flexible, long-term working capital.

I could not agree more, which is why I introduced the RESTART Act to provide low-interest, long-term loans, which allow small business owners greater flexibility.

Can you expand, Ms. Bayles, on the need for minority-owned businesses to have broader access to relief, longer-term loans, and greater flexibility for expenditures and loan forgiveness, as I propose in my RESTART Act?

Ms. BAYLES. Absolutely. As I mentioned in my testimony, the PPP was an immediate fix, and so having the flexibility to have funding that will last, larger amounts will definitely go a longer way because nothing is more frustrating than getting just a short toss in the pot. So having that long-term flexibility, larger amounts would greatly be appreciated.

The biggest piece that I stress in my testimony that I add and that has been mentioned by the other witnesses and other Senators is really just going to be that technical assistance, because even for a long-term loan, you still are going to have the credit challenges. You still are going to have the financial documentation challenges. So any sort of funding opportunity is going to have to be matched with equal access to technical assistance to actively get those businesses prepared.

Senator YOUNG. And when you think about barriers that minority-owned businesses face with respect to PPP access and financial services education, is this what you are speaking to——

Ms. BAYLES. Yes.

Senator YOUNG [continuing]. or are there other barriers that we should be thinking about?

Ms. BAYLES. Well, for PPP, the challenge was a formal payroll system, and so getting out there and proactively providing the tools to businesses so that they know the advantages of using a formal payroll structure would have certainly maximized the amount of minority-owned businesses that qualify for the PPP.

But the Schedule C option did certainly help. So just going down that road in a more refined fashion, I think, will have the greatest impact.

Senator YOUNG. So this Committee should be aware of what you have discussed as we try and support the SBA in advancing minority business-related services.

Ms. BAYLES. Yes.

Senator YOUNG. I think that is really important.

Ms. Bilonick, in your testimony, you know the critical role that NDIs and CDFIs play in providing the needed sources of capital to minority- and women-owned businesses, but also as related to what Ms. Bayles said, but also as educators on financial services and lending tools.

We can authorize new forms of funding, but it is community lenders such as yourself that will ensure the underserved have true access to these opportunities.

So, Ms. Bilonick, my time is running a bit short, but can you briefly speak to the importance of prioritizing these kinds of institutions as in my RESTART proposal when extending credit to businesses operated by traditionally underserved entrepreneurs?

Ms. BILONICK. Absolutely. Thank you for the question.

You know, I would say I think there is sort of a narrative going around that the challenge or the main challenge for underserved businesses in terms of accessing PPP is a challenge around filling out the application, gathering the necessary documents, and while that may be true for a subset of our clients, I really think the challenge was around accessing the product.

We had many, many clients come to us that sort of had a false-start attempt with their bank and never got to the end of the process because they just simply were not a high enough priority for their commercial bank based in terms of their depository accounts or other factors that put them lower on the list of priority.

So what I really think is that Community Development Financial Institutions working in neighborhoods, working in communities where we have the trust, where we have the track record. We are the resource that small businesses in our communities are going to trust and come to first and rightfully so. This process has just been an example that underlies the fact that commercial banks often turn away our clients who are perfectly viable loan clients.

Senator YOUNG. Thanks so much.

Chairman RUBIO. Thank you.

Senator Coons, are you ready?

He just arrived.

Do you need to catch your breath, or are you ready to go?

Senator COONS. I am happy to proceed, if I might, Mr. Chairman.

Chairman RUBIO. All right.

Senator COONS. I just want to take a second and thank all the witnesses and thank you, Mr. Chairman and Ranking Member Cardin, and to my colleagues from Indiana. I just spent time on the floor discussing the RESTART Act with our lead co-sponsor and look forward to figuring out with you how we might find a path forward together.

I just wanted to share by my own opening, if I might, that I am really grateful we are having a constructive and bipartisan hearing. I am grateful, Mr. Chairman, that this has been a broadly constructive bipartisan part of what has otherwise been a very difficult process for responding to the pandemic and moving forward.

I recently spoke with Blanche Jackson. She is the CEO of Stepping Stones Federal Credit Union in the East Side in Wilmington. They are also a CDFI, Community Development Financial Institution, and they provide their services at no cost to low-income communities in Wilmington.

They became a PPP lender. They provided over $1 million to small businesses and nonprofits, overlooked by other PPP lenders, even those seeking loans under $10,000. So I was encouraged to hear that at least in that instance, this worked out very well.

Let me direct a question, if I could, to Ms. Bilonick. In my experience in the conversations I have had in Delaware, it is clear from Stepping Stones and other CDFIs in my home State that additional funding to the CDFI fund is critical getting this assistance out to underserved communities.

I am advocating in this next package for $1 billion for certified CDFIs. How do you see additional funding for CDFIs actually affecting the viability of the survival, short term and long term, of minority-owned businesses?

Ms. BILONICK. Well, first, let me thank you in advance for advocating on behalf of additional funding to CDFIs. Of course, that is a self-serving compliment, but I do really think that that is where the money needs to go.

From our perspective, it would be extremely helpful, both in terms of additional liquidity, that we could then put out to our clients.

As I mentioned in my comments, we really struggled initially because we did not have sufficient liquidity to take on this new demand, and so luckily, we had three partners who stepped up and were able to provide us with the capital to be able to do the additional lending. But, obviously, funding through the CDFI fund, which is one of our primary sources of capital, would be extremely helpful and then in addition to support our operations. So those would really be the two pieces of what would help us to be able to serve our businesses even in a more robust way.

Senator COONS. If I could, Ms. Bayles, I have heard—and you have testified—there is a lack of community outreach in some of these relief programs.

A program that was actually founded in my hometown of Wilmington, Delaware, called SCORE in Delaware has done a great job at providing easy accessible outreach in terms of getting a business plan done, getting started.

How can we reach business owners more broadly? How can we do a better job of outreach in terms of connecting available SBA relief programs to minority businesses?

Ms. BAYLES. Thank you, Senator.

I would say that the training and the technical experience needs to be more diversified to finding businesses where they are.

So SCORE, as you highlighted, focuses on a business plan and sort of the startup functions of a business. That is definitely helpful. That is vital.

However, my experience, particularly during this round of CARES Act funding, you are dealing with businesses that are already started. They are already open. They are trying to keep their doors open, so sort of a more advanced approach covering things that I testified on, payroll compliance, tax withholding compliance, so a more refined technical assistance that finds businesses where they are. So it is a little past the startup phase. That is where we have had the most success.

Senator COONS. Mr. Chairman, how much of your patience can I prevail upon, given the absence of other members? Because I have got two other questions, I am happy to ask, but——

Chairman RUBIO. Go ahead and do those.

Senator COONS. Thank you.

Ms. Estrada, if I might. Just interested in whether or not authorizing another round of PPP lending, as I am sure you have heard from Senators Cardin or Shaheen, we have been working hard on a bill to prioritize Paycheck Protection Program, which would provide a second forgivable loan to the smallest and hardest hit businesses with a set-aside for firms of 10 or fewer. And I know we have been in active conversations with the Chairman and others.

But I just would be interested, Ms. Estrada. If Congress authorizes another round like that of PPP lending to the smallest and hardest hit, how do we make sure that underbanked businesses actually are aware and participate?

Ms. ESTRADA. Thank you for your question, and it is true. There is some need in reference of making the awareness, in reference of the CDFI, that we are the ones that we could have the relationship with the business owner. And we are the ones that we are working close to the minority business owner.

So the idea for these funds, it will be that we need to make sure that this money is going to be in the right hands for the ones that they are looking for this assistance, or the ones that probably they already covered the payment for the employees, and they need right now just to have some additional working capital.

So every business is different, and every business is run different. Probably, a major lender, a credit union, maybe they do not have the ability to understand in detail what is the real need of the business. So the CDFI with the SCORE, with SBDC, we are the ones that we are providing this technical assistance, this financial allocation, like we used to call it, and that is the reason it is important to make this program available for the near future.

Senator COONS. Well, thank you, Ms. Estrada. Thank you, Ms. Bayles. Thank you to the audio system which just kicked in.

Let me just in closing say that in addition to the prioritized Paycheck Protection Program I just spoke about, which I am excited to work with Senators Cardin, Shaheen, and others on, I also think an extension of the Small Business Debt Relief Program would make a great deal of sense. It is already pay the interest and principal for nearly 300,000 SBA 7(a) and 504 borrowers, which are, a quarter of them, minority business owners. Black-owned businesses are two times more represented among SBA borrowers than among small businesses more broadly. I think we should extend this critical debt relief program and finalize a competitive entrepreneurship fellowship program that would focus on distressed areas, both urban and rural, providing a living stipend, mentorship, and capital access. And I am hoping that I can work with my colleagues on that.

Thank you very much, Mr. Chairman, for your indulgence, and to you and the Ranking Member, I am excited to work with you on what I think is a critical part of this next bill.

Chairman RUBIO. Thank you.

Senator Kennedy?

Senator KENNEDY. Thank you, Mr. Chairman, and I want to thank all of our witnesses today.

I would like each of you to give me a one minute summary of your testimony, and specifically, here is what I have in mind. In the first 30 seconds, if each of you could tell me why you think there is an absence of access to capital, and number two, what laws would Louisiana—or rather the Congress should pass, not just impacting Louisiana, but impacting every State?

And I will ask our Chairman to designate the order in which the witnesses should go.

Chairman RUBIO. Well, we will start with Ms. Bayles. She is sitting right in front of us, and then we will go from there. It gives everybody else a chance to think about how to put all that in 1 minute.

Ms. BAYLES. I know. Great. I get to start off. Okay.

So I would say, just to reiterate what was in my full testimony, is access to information. So there is a huge busy, congested information highway that is out there, and there are numerous factors that would prevent a small business owner from being able to grasp that, first of all, and then interpret that exactly to the fit of their business.

So that information is then inequitable, and so again, opening up and clarifying all the information that is out there through the technical assistance is going to be something that I will continue to emphasize, and that technical assistance has to be diversified to fit more businesses than at the startup phase.

So as far as the particular laws, I would have to say without seeing the individual proposals that are currently on the floor, what we have discussed so far, and that is providing long-term options for financing and more flexible terms for those applications is a step in the right direction.

Chairman RUBIO. Ms. Estrada?

Ms. ESTRADA. Yes. Thank you, Chairman.

It is a really interesting question just to give an answer in one minute, but what we are seeing is that we cover certain gaps, the CDFI, in the financial invitation, education, in reference of how it is going to be the process for the PPP.

But we are seeing right now that there is—okay. We pay the employees right now. We have this covered, but I need money. Just for example, right now in Florida, we are expecting a storm. So we have people that they are doing the landscaping, and they need probably money just to buy equipment. And you know what? There is nobody who will be doing a loan under these terms. If this person, this business owner is going to their bank, there is no way that he could get a microloan. Do not think about it, something for $10,000 or maybe $15,000, and if they are coming to us, we are in a really tough position where we need more money just to allocate in the right hands of the business owners.

So it will be a program where we could have the amount of money that they need in reference to continuing operation with flexible terms, something that we could help with the cash flow.

Remember most of the business owners, they were financing their business with credit cards. So the interest rate that they are paying is really very high, a lot of confusion, because they were applying for the EIDL. They received the advance. They do not know if they have to apply. So the information is there.

We have the ability to digest the information for the small business owner, but anyway, we need to guide them through the process, because what we are seeing, if we are not guiding them through the process, predatory lenders, payday lenders, they are going to take advantage of the ones that are working hard. And they are the ones that are moving our economy. So that would be something that we need also to consider.

Chairman RUBIO. All right. Mr. Busby?

Mr. BUSBY. Thank you so much. I will try to make it quick.

Seven quick points. First, transparency. We must understand the information early on.

Second, the information must be clear when we get it, and it must be early.

Third, we must monetize the CDFIs. We understand that 70 percent of loans made to black homeowners and black businesses come through CDFIs. So when we fund CDFIs, we are, in fact, funding our citizens, and are funding our communities.

Third, the 8(a) program. We understand that many black businesses have gained great deals of revenue and success through the 8(a) program, but we are asking for the program to be extended for black-owned businesses. Currently, it is 9 years: 5 years of growth, 4 years of entrepreneurship, and then exit. We are looking for a much longer program, especially during the years of 2021 to 2026 for particularly black-owned businesses.

Fourth, prompt pay program. During the Obama administration, there was a program that said government contractors, they need to get paid within 15 days. That would change the outcome of many businesses that have to go and, in fact, get a loan just to cover the government's float. We think that is something that during these difficult economic times, it could definitely be changed.

Next, codify MBDA. It is the only agency in the United States that has the word "minority" in it. We have got to make sure that they have the resources and the funds that they need to have long term.

And then lastly, fund chambers of commerce, as we have discussed. They have boots on the ground. They understand the importance of entrepreneurial training, relationships, contracting, and making sure that there is a connect between what happens in Washington, DC, as well as what goes on, on their local communities and local businesses.

Thank you very much.

Chairman RUBIO. Ms. Bilonick?

Ms. BILONICK. Thank you. Yes.

I would concur with the comments that I made and that my colleagues made, but I would also add that just sort of in a nutshell, the point that I would like to drive home is that because the majority of PPP loans that are going out are in the $150,000-and-below range, that with equitable distribution of the PPP program, there is a high impact to be expected with regard to retaining jobs.

I would say sort of legislatively that the most important recommendation that I would make is around the investment of a $1 billion emergency appropriation to the CDFI fund to pass through two CDFIs that are on the ground working with small businesses to access this and other Federal programs.

And lastly, to answer your question around why there is no access, I think we still are struggling with discrimination in our country, and I think that is one of the primary reasons why our clients are not accessing PPP through the commercial banking system and going to CDFIs and other alternative lending resources.

Thank you.

Senator KENNEDY. Thank you, Mr. Chairman.

Chairman RUBIO. Senator Cardin?

Senator CARDIN. Well, let me thank all four of our witnesses for their testimony, and I think that your answer to Senator Kennedy's question really pinpoints an agenda. And I certainly agree with the CDFI points that have been raised.

Mr. Busby, I want to drill down on what we could do within the SBA. They have an Office of Capital Access, but there is no specific point person to deal with access to capital for minority businesses or women-owned businesses or businesses in underbanked communities in rural America.

Senator Duckworth and I have introduced legislation, and one of the things it would do, it would set up an office to deal with those underbanked communities.

Do you have recommendations as to how we can sensitize the SBA itself to be more aggressive in helping the underbanked and underserved communities?

Mr. BUSBY. Great question. Thank you so much for the opportunity to speak to that.

A couple things. One, currently, there is no real certification for a black business owner. The government as well as private sector understands the importance that the role that business owners play in their local communities as it relates to moving our agenda forward, but right now if you ask the government or private-sector firms how much they are actually spending with black firms, they cannot really tell you because there is no SBA certification currently that says I am a black-owned business. It states that I am a minority or a woman or a small business, which I am none. I am black when I wake up. I am black in the evening when I go to sleep. We have to make sure that we are counting the black businesses that are participating in these programs.

Next, there was $130 billion that was left in the Payroll Protection Plan, but at the same time, we lost 441,000 black-owned businesses. It is not because they did not understand the program or did not need the funds. It was about early participation, clarity of the program, and ensuring that they knew where and how to get the funds. We think that many black-owned businesses now have the opportunity to grow through mergers and acquisitions.

Again, we lost nearly half a million firms. We have now got to go and find those firms, those contracts, and make sure that those revenue dollars are staying in our communities, and that is going to need a different type of funding. It is not going to be based on payroll but based on opportunity as well as growth. So we would like to look at the difference that the next funding has in reference to how do we move our communities forward, keep the businesses that we currently have, as well as make sure that there is new opportunities for new businesses to grow.

Senator CARDIN. Thank you.

I want to ask Ms. Bilonick the same question, but I also want, if you could, to expand on your point about mom-and-pop minority businesses.

What effort can we make to deal with the really small, small businesses which are more likely to be a higher percentage of minorities in addition, if you could, respond to whether there is a need for a point person within the Office of Access Capital?

Ms. BILONICK. I think it would be very effective to have a point person. I think any sort of deliberate and thoughtful way of approaching access for minorities, small, black, Hispanic, however you want to break down the pie, businesses, can only be a positive.

I think that one area of focus—and I mention it in my remarks—is to try to funnel through agencies not only CDFIs but also technical assistance providers that work directly in communities. I think that is how we will really reach the mom-and-pops.

I understand that a lot of the dollars were funneled to SBDCs, and with all due respect to SBDCs that are doing fantastic work in the communities that we serve, there are some limitations around what they are able to do and their reach. And so I would say if there were a way to perhaps take the SBA PRIME recipients of the past 4 or 5 years and funnel dollars through them, I think it is just a little bit of an oversight to suggest that the SBDCs are the primary technical assistance provider in communities when there are organizations that are doing this work fully entrenched and sort of very deeply enmeshed in the community.

Senator CARDIN. One of the reasons why we focus on the CDFIs—and I would also put MDIs, minority depository institutions—is that to make a smaller loan is not as attractive to lenders as larger loans, and when we deal with the smaller the small businesses or you are dealing with minority-owned businesses that tend to be smaller loans. It is not quite as attractive.

So one of the things I think we need to do is how do we focus on making it more attractive for the smaller loans to be made by traditional lending institutions.

Ms. Bilonick, do you have a suggestion on that?

Ms. BILONICK. Yeah. I almost wonder if there would be a way to sort of designate different lenders in different ranges for lending. So, for example, the CDFIs could be lending in a certain range. As I mentioned, our average loan size is $30,000 under PPP. So I do not know many banks that would be chomping at the bit to make that kind of a deal.

So if there were a way to sort of concentrate the higher-dollar loans perhaps the commercial banking sector, those that are in the millions of dollars, and then keeping those, you know, even $150,000 and below, having sort of designated tranches.

Now, this is just what is coming off of the top of my head right now. I would happily discuss it further with your team and really fully flesh it out.

Senator CARDIN. I would just point out we have allocated certain funds to smaller lenders as part of our efforts. Senator Coons has suggested walling off a certain amount of money for the smaller small businesses.

I think there are ways that we can try to work together to do this, but there is also the need to look at making it more financially attractive for lenders to make loans to smaller companies.

Thank you, Mr. Chairman.

Chairman RUBIO. Senator Cantwell?

Senator CANTWELL. Thank you, Mr. Chairman.

I wanted to see if I could ask Mr. Busby a question. Obviously, we want to have a variety of voices communicating about what the capital needs are from various aspects of our society and certainly have worked on these issues in the past when I was the chair of the Small Business Committee, women and minority businesses getting such a small percentage of access to capital.

So that told us that you needed larger voices to communicate to people about the programs and make the programs work, all of the above.

But one of the things, Mr. Busby, that we are facing is that African American news sources are also being challenged by the COVID crisis. They are being challenged by the fact that advertising revenue is falling off. They are being challenged by consolidation of newspapers, and when they get consolidated, they do not always—let us just say they are not always investing in diversity of local news and opinion.

So one of the things that we would like to fix in the next COVID package is a provision that at least the House has considered, which would allow those radio stations or TV stations that are owned by a larger consortium to get funds if they are going to invest in local content.

Unfortunately, newspapers and broadcasters owned by larger groups were left out of the Paycheck Protection Program. That means African American radio stations that are part of Urban One and Spanish language stations that are part of Univision could not get much needed relief.

I have been pushing to change that along with Senators Ernst and others and still believe we need to find a way to help them in the next round of COVID assistance and I hope Chairman Rubio and Ranking Member Cardin will help as well.

So, Mr. Busby, what about that issue?

Mr. BUSBY. That is a great point. Many of our businesses across the country said that the reason that they did not either apply for payroll protection or the EIDL program was just lack of information.

We have partnered early on in our existence with NNPA, the National Newspapers Publishers of America, which are the black newspapers, and last year, we partnered with NABOB, the National Association of Black-Owned Broadcasters, which represents roughly 170 to 180 black-owned radio stations and roughly 12 black-owned TV stations.

It is important, especially during these times, for us to get the information that is out timely, accurate, and most importantly that is coming from individuals and voices that we know and trust. So for there to be an opportunity for the black media to participate in this, I think, is a very positive step in the right direction to ensure that our businesses have the opportunity to compete and have sustainability in our communities going forward.

Senator CANTWELL. Thank you.

Could you just expound on that trust issue for a second? Because I think it is not fully understood how important these radio stations and newspapers are.

I would say in my State, the Asian publications have the same force of veracity. I would say in Indian Country, the same thing. People listen to information that—I am sure in the Chair's case, there is probably Hispanic publications all throughout Florida that are the go-to source of information.

Why is having this trusted source so important?

Mr. BUSBY. It has been gaining that trust over decades, and for most of us, it is not just the entertainment piece of it, but it really is the information, the data that has been shared.

And I will give you a great example. The U.S. Black Chambers was touting and yelling at a lot of our voices, about 35 to 40 percent of black-owned businesses, we felt were going to be closed during the pandemic. No one really heard that, and then it came out to our black media that the Bloomberg Report came out and actually said that we had lost 450,000, almost 41 percent of our businesses.

The information that we get is reliable based upon who is telling it, and for black communities, black citizens, that information coming from black media is trusted. It has been tried, and over the decades, we have learned and gained relationships with them to make sure that our voices are being heard as well as our concerns are being brought both back to D.C. as well as from D.C. to local communities around the country.

Senator CANTWELL. Thank you.

I hope that the Chair and Ranking Member will work with us on this important issue. Senator Ernst and other members of this Committee are big supporters of this concept, and to me, I think it is just something that is a little misunderstood. And if people are going to make the investment in local content, I think we should try to help them.

So thank you.

Mr. BUSBY. Agree. Thank you.

Senator CARDIN. Mr. Chairman, if I might just thank Senator Cantwell for her leadership on this issue. This is an extremely important issue, and I hope we all can work together on this.

Chairman RUBIO. Thank you.

Senator Hirono?

Senator HIRONO. Thank you, Mr. Chairman.

This is a question particularly for Ms. Estrada and Ms. Bilonick because you are both direct lenders.

So even in normal times, pre-pandemic times, it was really hard for minority-owned businesses to have access to capital. So based on your experience, because of this pandemic, what have you observed? What have you learned? What can we do to streamline the process, create some new methods, whatever we need to do? Because, as I say, even in normal times, it was really hard for minority-owned businesses.

And I think that, Ms. Bilonick, if I heard you correctly, you said that part of the issue was that there has been discrimination——

Ms. BILONICK. Yeah.

Senator HIRONO [continuing]. against minority-owned businesses.

So, anyway, going forward, what can we do as a result of this pandemic to lessons learned? What can we do to improve access to capital for minority-owned businesses?

Ms. BILONICK. I can jump in, Fabiana, if that works, unless you want to go.

Ms. ESTRADA. Okay.

Ms. BILONICK. Great.

So I was just going to say something that is interesting in this time period is that, yes, it is always a challenge for small and minority-owned businesses to access capital, but I think that right now, CDFIs and community lenders are actually able to do loans that traditional banks are not—well, we are always able to do loans that traditional banks do not have an appetite for, but I think right now, we are even doing our normal lending.

We have businesses that are taking advantage of new opportunities that are provided by this strange new world that we are living in, and I think there are lessons that can be learned from CDFIs that perhaps traditional lenders could take a look at around more flexibility, around credits or alternative sources of judging credit, more flexibility just in general.

I mean, I think that nonprofit organizations are known for being agile and flexible, and that is really what these times demand.

So to the extent possible, it is feasible that traditional lenders could sort of take a page out of the CDFI playbook and be a little bit less rigid around their requirements.

Of course, we have a higher appetite for risk, but it often comes with a great payoff at the end.

Ms. ESTRADA. If I may, I would like to add as well that our entrepreneurs, they need to understand the process for the loan application aspect because most of the time, in the older times, we have our entrepreneurs that they visited the CDFI or the banks, and they are asking for a large amount, let us say $50,000, and probably, they are not ready for that loan amount because they do not have the financial allocation that our colleague mentioned, taxes, or there is an issue with cash flow. So we need to work with programs that probably could feed different realities.

In one point of myself being a business owner, maybe I need $5,000. There is no need for me to get a loan for $50,000, and also the flexibility in reference of inside the allocations for the payment, low-interest rates, requirement deferments or maybe grace period that it will be okay just to avoid affecting the cash flow issues with the borrowers.

So, anyway, there is a lot of work that we are doing at the CDFI level because most of the time when we—let us say in January this year. We were working with entrepreneurs, that we are frustrated because that were applying for 150- to $50,000, but they were not having the capacity to repay this loan. So, as well, we need to understand our business. We need to understand our credit. We need to understand our cash flow. So we need to continue providing the financial allocation.

And the ones that they are doing during this pandemic, that probably, unfortunately, they have to close down doors because there is no way that they could recuperate, the idea for us, the CDFI and all the community organizations, it will be to provide a friendly hand just to close business with their pride, taking the right tact, because we do not want for them eventually in 2 months or 3 months, reopening another type of activity, and they have something negative on credit or they were not able to close down their credit cards. So we need to also try to avoid in certain circumstances, as well any major decision, that it will be affecting the life of this program or for the future.

So the ones that they continue working, continue helping them out with flexible terms and conditions, and the ones that they probably—they need to face the reality to close down business, also give them the hand to close in the proper ways.

Senator HIRONO. All right. So I have one question, Mr. Chairman, for Mr. Busby.

I know that you have participated in the 8(a) program. I am a big supporter of the 8(a)'s, but you mentioned just now that we need to start thinking about a different kind of funding not based on payroll because, as you noted, that half a million or so of black-owned businesses have already gone under.

You mentioned that we should be looking at some sort of a program to create new opportunities for them to restart businesses or something along those lines.

So I would like you to talk a little bit more about what you had in mind.

Mr. BUSBY. Sure. On the 8(a) program, we are looking to extend that past the 9 years that it currently operates for a business owner. We think that it could go anywhere from 16 years up to 20 years for black-owned businesses. We feel like this will provide some generational wealth for a 9-year business, and then to be placed on your own really provides challenges that many of those firms cannot handle.

If you look at the Black Enterprise Top 100 list, every year, the top 10 to 20 firms, many of them fall off because of their no longer opportunity to be in the 8(a) program. So as soon as we get and gain opportunities in statute, we are forced out of the program. We would like to——

Senator HIRONO. So we want to change the statute, the 8(a) statute, so that it is a longer timeframe for them to be participating? That would be a big positive for black-owned——

Mr. BUSBY. We think so, and then we think the program would also be a big factor, something that could easily be done and would then provide real access to capital that many business owners do not have to go and get a loan. They could actually just live off of the cash flow that the Government is now making them go and get credit for.

Senator HIRONO. Thank you very much for that very specific suggestion, Mr. Busby.

Mr. BUSBY. You are welcome.

Chairman RUBIO. Thank you.

Senator Duckworth?

Senator DUCKWORTH. Thank you, Mr. Chairman.

I just want to thank all the witnesses who are here today.

I do want to sort of focus a little bit more on some of the provisions the Microloan Program Enhancement Act of 2019.

Ms. Bilonick, as you know, several microlenders have seen an uptick in need for microloans, in particular, including intermediaries in Illinois. Senate Democrats have released proposed changes to the microloan program, many of which are included in the Microloan Program Enhancement Act. That bill would give intermediaries additional funding for technical assistance and lending. It would increase an aggregate and annual lending cap, and it would repeal the 155th rule that restricts lending in the first half of the year.

Can you discuss how these changes, Ms. Bilonick, would help intermediaries, such as yours, get dollars into the hands of borrowers more efficiently and give you the increased resources you need to save micro borrowers, particularly at a time when there is increased demand such as we are in right now?

Ms. BILONICK. Absolutely. Thank you, Senator Duckworth.

I think these changes would be extremely helpful. One thing I note, I do appreciate sort of the parallel with technical assistance as well, which we find to be useful with regard to getting our businesses in the queue and funded.

While I said that our PPP average loan amount was $30,000, our traditional, even though we do go all the way up to $250,000 as a community advantage lender, is more in the 13- to $17,000 space. So the microloan program is extremely helpful for us. It is the most reasonable debt that we have to be able to turn back over to our clients versus from either foundations or commercial sources, and so it would hugely expand our capacity to lend from the microloan program.

I would also just say with regard to that, the 155th rule, we are in support of striking that. It sort of creates a false bottleneck that does not need to be there with regard to distributing money equitably during the whole course of the fiscal year, rather than splitting it up with the first half and second half, and so we would certainly view that as a positive for our lending ability.

Senator DUCKWORTH. Thank you.

And I want to touch also on the need for the SBA to dedicate resources toward minority business owners. We have already touched on that, on this so far, my colleagues from Maryland, but I want to come back to this. We know that small businesses, borrowers of color, had a harder time receiving adequate capital from traditional lenders prior to COVID–19, and unfortunately, this pandemic has only made this issue worse.

Last month, SBA and Treasury created additional set-asides in the Paycheck Protection Program for CDFI lenders to better serve borrowers of color. While this is a step in the right direction, more must be done when it comes to helping these folks have access to lenders and capital.

And I will give you an example. I was just in East St. Louis just last week meeting with small business owners, and one of them was a black-owned business. All the others were white-owned businesses. Some of them were women-owned, but they were all white-owned. They, for the large part, received all the PPP loans through the full amount that they asked for, and yet this black businessman who had a better balance sheet and a longer track record only got a small percentage of what he applied for. And he could not figure out why he would have gotten a smaller percentage.

In this discussion, it was very interesting because they were comparing their backgrounds, how much capital they had. They were on similar businesses, and there was no other reason where he was different from the others. In fact, he had more experience, had better balance sheets, except that he was a black-owned business.

So, Mr. Busby, can you discuss what additional changes Congress must make to PPP and to traditional lending structures to make sure borrowers of color can access small business loans and capital? You touched on this before, but I want to give you more time to really emphasize this issue because it is very real. And I am seeing it on the ground today.

Thank you.

Mr. BUSBY. Thank you so much for the question because it is a real concern. Access to capital is the number one, number two, number three concern for black business owners. Discrimination exists, and so we are asking for all barriers for access to capital to be removed for black-owned businesses.

We also know that 70 percent of black firms that applied got denied, of U.S. Black Chamber members, and 96 percent of our members that applied that did get some funding did not get what they requested. So either they did not get it, or if they did get it, they did not get what they need. And we found that to be historic. That is not just now. That is a historic pandemic as it relates to our community in reference to access to capital. Thus, we cannot grow, so we cannot hire, and if we cannot hire, then we cannot continue to have sustainability in our communities.

The credit scores need to be twice as high as our white friends. When we go in and ask for a loan, we only get 40 percent of the funds that we ask for. We have to have twice or somewhat almost twice the credit scores of our white peers.

I could own my home. My white peer could own their home. I could go in with a great business plan looking for $100,000. I will walk out with $40,000, praising to God for allowing me to get that $40,000, only understanding that 90 percent of businesses fail within the first year, and the majority of the reasons is because they did not have the access to the capital that they needed when the first emergency happened.

The average black family has less than $400 for an emergency. The average black business, only 30 percent of them have any credit at all, and so when we are in situations where things come unexpectedly, it is only going to exacerbate the problems that black business owners have during pandemics and just regular challenges of businesses itself.

Senator DUCKWORTH. Thank you.

I yield back, Mr. Chairman.

Chairman RUBIO. Thank you.

And before I turn to Senator Scott, Mr. Busby, just to clarify, the figures you gave, the 70 percent were denied and 96 percent got less, was that for PPP?

Mr. BUSBY. That was for PPP. Yes, sir. That was our members of the United States——

Chairman RUBIO. I want to address that when I get to my—I am trying to give everybody a go, but I want to talk to you about that. I just want to make sure we are talking about PPP. Got it.

Mr. BUSBY. Yes.

Chairman RUBIO. Senator Scott?

Senator SCOTT. Thank you, Mr. Chairman. Thank you for your interest and your passion around helping small and minority businesses have access to the Paycheck Protection Programs.

As we look at this pandemic, the one thing that we can conclude without question is that 41 percent of African American-owned businesses from February through April declined. We know that those numbers are stunning, frankly, especially when you compared to other groups. Hispanics declined by about 32 percent, Asians around 26 percent. So that means that this pandemic not only created a health crisis, which African Americans, unfortunately disproportionately impacted by this global pandemic, and then on top of that, the employers started vanishing.

Mr. Busby, I think this is an accurate depiction?

Mr. BUSBY. Very accurate, Senator Scott. Things that were being challenged for our community just exacerbated through the pandemic, and so for many of us, we said the country was willing and able to write a $2 trillion check for a stimulus package. The black community is saying, "Hey, where is our support that we desperately need to continue to have sustainability in this country?"

Senator SCOTT. And I will say to answer that question, in part, I just finished an Instagram Live with Secretary Mnuchin talking about the important role that CDFIs and MSIs play, especially in the second tranche or the second iteration of the Paycheck Protection Program, working with folks like Robert Smith and others. We were on the call with Secretary Mnuchin and redesigning the second half of the PPP. I think if that part of the story was in isolation, that part of the story is a far more positive part of the story than the overall story because we were able to put the focus where it needed to be, and if we do that in this next round, we may have far better success than we did in the first iteration.

Is that about right, Mr. Busby?

Mr. BUSBY. That is fair to say. I just think that it needs to be very transparent, and it needs to be a commitment from both the financial institutions that are making the loan as well as the Government to ensure that there is accountability to the organizations, the banking institutions, to ensure that there is equity in loaning and the individuals that they reach out to make sure that all businesses have opportunity.

Senator SCOTT. Thank you.

I will say this. I think accountability and responsibility goes on both sides because I have been an African American-owned business for 15-plus years and started three or four other businesses, and we definitely have to address some of the challenges from the beginning into the crisis as well as the crisis on as it relates to minority-owned businesses.

One of those challenges is that our banking relationships, frankly, as African American businesses were weaker. So when you come into an institution and they are prioritizing their clients, too often we found ourselves frankly in the back of that line, and I do not think that is an overstatement. I think that is an accurate statement.

And that lack of relationship creates a domino effect throughout the entire Paycheck Protection Program but frankly through the entire life of a small business, having been one, and I can tell you it is painful when you need something and you are trying to get in line after the crisis starts.

But what I did realize during this crisis—and I think this is a part of the silver lining and the good news to come—is that FinTechs and technology can be an equalizer when the relationship is not there.

So if you would help me understand how the PPP and the EIDL is in a better place when we have FinTech and technology as a part of the solution. Can you speak to the importance of that?

Mr. BUSBY. I think there are some benefits as well as some challenges when FinTech gets involved. The benefits there are that it is quick, but for our community, we are not as——

Senator SCOTT. Savvy?

Mr. BUSBY. No. We are not as committed to quick as we are long term. We understand that this is not going to be the last opportunity, and what they told us is when this fund came out, they said go to your existing banking relationship. FinTech is not a banking relationship. That is a transaction. I want my individuals to go to the bank, shake that banker's hand, because understanding that we are going to have opportunities to grow and the only way you are going to be able to grow is to have access to capital, access to credit, and relationships.

When I talk about the future of my businesses, I may want to acquire. I may want to merge. I may want to do a joint venture. I am going to need a banking partner who understands my needs as well as the opportunities that they provide, and many times, that does not happen over a FinTech relationship.

Senator SCOTT. Well, it is certainly harder to happen over technology, without any question, and that is part of the problem, and it was the foundation on which we stand was not there. So when the crisis happened, I think it only exacerbated and brought more light to the actual challenge of banking relationships and the importance of those relationships pre-crisis and frankly during the crisis.

I know my time is out. Thank you very much, Mr. Busby, and I look forward to having a longer conversation with you at a later time.

Mr. BUSBY. Thank you.

Chairman RUBIO. Senator Booker?

[No response.]

Chairman RUBIO. You are muted. Senator Booker? Go ahead, Senator Booker.

Senator BOOKER. Thank you. Thanks.

I just want to start by thanking the Ranking and Chair. It is clear with the attention and care that this Committee is really just trying to focus on what is fair, focus on what is really important, and I am just happy to hear a lot of conversation of my colleagues today.

So I want to jump right in. The stakes are so high in this, not only for each small business owner and employee, but really what we are talking about today deals with the entire economy.

So a July poll just found that 7 percent, 7 percent of minority business owners are very confident they will be able to maintain payroll if no further Government relief is provided. Just 7 percent have that confidence, and McKinsey estimates that black communities enjoy the same level of economic activity, if they did enjoy the same level of economic activity as white communities, our country would enjoy a 1- to $1.5 trillion boost to our overall economy. So this is about all of us. It is not just about making sure that African American businesses get a fair share, fair opportunity, equal opportunity. That is obviously important. We all have a stake in this.

Earlier this week, Leader McConnell proposed a second round of PPP in this next package. That is wise. That is important. I say vital. But we cannot simply put forward the same policy again and expect a different result.

As I see it, the PPP was successful in getting emergency assistance to many small businesses to help cover payroll for a short limited time, but there are deep structural challenges with the program that prevent it from lifting very small minority-owned businesses up. And that is the challenge I have.

Maybe, Mr. Busby, I can just ask you. Could you comment on what I believe are facts? And if you have issues with any of these facts, I want you to say it, but number one, unbanked and underbanked businesses are disproportionately minority-owned, and they are less likely to participate in PPP, given the program's reliance on a mainstream banking system.

For minority-owned businesses that do have actually lending relationships and have been able to participate in PPP, discrimination actually still exists. If there is any doubt in that, the National Community Reinvestment Coalition just conducted a blind test, in fact, sending black borrowers for PPP and white folks in for PPP and matched all the payer testers. So the black and the white, they matched them on all the details, but they experienced widely different treatment when applying for PPP loans, including different levels of encouragement to apply and different products offered by banks, just by the color of their skin.

So we know how the fee structure works. This is hurting black businesses. Banks also prefer to originate, say, a $5 million loan than they would a $250,000 loan, a dynamic that really disadvantages small businesses and disproportionately black businesses.

Then, finally, Ms. Busby, the last point I would like for you to comment on is that many very small businesses have short-run, nonpayroll expenses that exceed the 40 percent threshold permitted under PPP.

All of these things combined, Mr. Busby, would you agree to make a serious impact on the fairness that African American businesses are facing?

Mr. BUSBY. So true, Senator Booker, and thank you for the comments.

Let us start with the title of the program: Payroll Protection Plan. Of the 2.6 million African American-owned businesses today, 2.5 million have no employees. So they are not mom-and-pop. They are mom-or-pop, single-employer firms doing great work, not because they are small, but because they have 1099s or they have subcontractors or they work differently. And the whole idea of young people saying, "I want to create my own business, but I want to have the flexibility of being my own business owner. I do not necessarily want to be your employee," and so that is the way of the future.

And now you are telling black business owners, who have grown. If you look over the last 10 years, black businesses, particularly black businesses, have been the fastest growing sector in the country. We have got to now look at them differently than we look at the majority of businesses in America because we operate differently, and as it relates to credit, again, only roughly 30 percent of black firms have any credit relationships. And that has a lot to do with the discrimination that we have faced over the decades of years, the amount that we pay for the credit when we do get it and the way in which we are treated when we go in the bank.

A couple of things, when I go in the bank, I am never called by my last name. When I go in the bank, I never meet a bank loan officer or a bank president. When I go in the bank, I am only having a conversation with a teller. So for now you to tell me to go into a bank and apply for a loan on a Saturday where the bank is already closed due to COVID is only going to put me that much further behind when it talks about getting the capital that I need to make it through the most difficult times that we have seen in this country.

Senator BOOKER. Right. Then just the study where they were sending people in with all the same details, the only thing different was a black person versus a white person, and they found that while differences, all of these are just compounding. That kind of discrimination is just compounding a lot of the structural inequities that are already there.

So if we do not address this with a sense of urgency, that McKinsey data I showed you before, our overall economy is suffering upwards of a trillion-plus dollars annually, and so we have to find ways of getting additional channels of capital distribution to very small and minority-owned businesses or we will fail our overall economy, not to mention—not just the discrimination but compounded, because in a crisis time, so often minority entrepreneurs or minority communities face greater levels of impact than the overall community.

So I know there is a lot of good energy on this. This is why I am grateful for this hearing and we are having this conversation again. I have got a bipartisan proposal, the RELIEF for Main Street Act, that I am pleased also has the support of my fellow Small Business Committee colleague, Senator Young. The bill would send $50 billion to States, cities, and counties to seed and scale small business relief funds.

We have seen that the funds that pop up in every State of this country, but they are massively oversubscribed. These funds are over demand, and so our bill would push funding closer to the communities that they serve and allow funds to make loans and grants to very small businesses less likely to benefit.

So I just want to thank again the Ranking and Chair for this business. This is imminent. We are obviously coming up in negotiations for this final COVID package. If we fail in this moment, we hurt all of America. We hurt our entire economy. We hurt a considerable amount of our entrepreneurs and job makers in this country, and we perpetuate structural racism in a way that unacceptable. We have to address this.

Chairman Rubio, thank you very much for the time.

Chairman RUBIO. Thank you.

Senator Ernst?

Senator ERNST. Thank you, Mr. Chair, and thanks to all of our panelists for being here today.

We do know that our minority-owned small businesses play a critical role in the success of all of our communities, and I am glad we are having this conversation about how we can get these essential businesses the tools that they need to survive this crisis and lead then on the front lines for economic recovery.

Earlier this month, I had the pleasure of meeting with a number of local leaders of our black community in Des Moines, and one of the gentlemen that I spoke with is Izaah Knox. He is the executive director of Urban Dreams, which is a nonprofit that is focused on financial empowerment for underserved and underrepresented populations, very important.

I was happy to hear about Izaah's experience receiving a PPP loan as well as the positive impact it has had on his nonprofit. Of course, relying on technical assistance and that longtime relationship that he had developed with the bank, he was able to overcome some of those initial obstacles to receive the loan, and he stressed the importance, just as we have heard today, of having a lender who knows the community and has more than just the transactional relationship with the borrower as well as the training that he had received in this area.

So we have discussed a lot about that today, but I did want to give a shout-out because I think it has been echoed so many times over how important it is that our local lenders, our local credit unions have that relationship with those in our underserved communities.

So what I will not do, I will not dive into that because we have heard a significant amount about how to develop those relationships, and we need to lean on our lenders to work on developing those relationships.

But what I would like to pivot to is an area that I am very concerned about with the impact that COVID–19 is having on our child care businesses, which has seen the significant declines in enrollment and revenue. Of these child care businesses, half are minority-owned. Forty-five percent of our child care workforce are black, Latino, or Asian, and according to a recent survey, the National Association for the Education of Young Children, two out of five child care providers and half of minority-owned child care businesses are, quote, "certain that they will close permanently without additional public assistance," end quote.

So it is critical that we are providing additional relief to stabilize these businesses, which is why I recently introduced legislation that would create back-to-work child care grants, and it would provide 9 months of financial assistance for child care programs to make sure that they can safely reopen and make it through this pandemic.

Just very briefly, if I could ask our panelists—and maybe if we could go to Marla. If you could answer the impact of keeping these child care providers afloat and its impact on those minority communities, that would be very helpful.

Thank you.

Ms. BILONICK. Absolutely. I did not get to it in my testimony because the written comments that I made were longer than the time allotted, but one of the client profiles that I featured was a Latina-owned child care business in Washington, DC, Little Angels Child Development. They currently serve seven families and have only had three of those seven families confirm that they are considering continuing to use them, just given all the considerations around COVID, both from a safety point of view and then their own economic capacity to pay for the service.

So, yes, child care is actually one of the six industries that has been sort of the highest hit of the PPP loans that we have made. It is one of the six highest industries that is represented in the portfolio of PPP loans that we have made.

We have always seen, in the Latino and African American community, this to be a very strong and vital business type, both for starting and expanding. And it has so many ripple effects because it is also affecting the ability of the people who use the child care center to work.

As you may have seen earlier, I had my daughter. My daughter is literally sitting next to me right now. I do not have child care. My other children are in high school, so they are less labor intensive. But that being said, this is a real struggle that we are all facing, and the child care centers are so essential, not just for the owners and their livelihoods and their employees and their livelihoods, but for those of us who are trying our very best and in many cases having to work even harder than ever while juggling children, homeschooling, all of this.

I think part of the reason why I had my daughter show her face is because I think we are all sort of living in this fallacy that we are not all really juggling this insane balance or lack of balance in this time period, and so I think it is excellent that you are bringing that bill to bear.

Senator ERNST. Yes. Thank you very much. This is all very important, one, to be able to provide the services and lending necessary for our minority communities, but then also the ability to provide care for their little ones as well.

I struggled with that as a young mother, myself, and so we want to make sure that all of our businesses are successful. And this is one way that we can do it. So thank you so much.

Incredibly important topic. I appreciate it, Mr. Chair. I yield back.

Chairman RUBIO. Did Senator Hawley drop off?

[No response.]

Chairman RUBIO. Senator Rosen?

Senator ROSEN. Thank you, Chairman Rubio, Ranking Member Cardin. This is really an important, critically important hearing to ensure that we are doing all we can to support our Nation's minority-owned businesses, and I want to thank all the witnesses for everything you do and for spending your time with us today.

Over the past few months, the coronavirus pandemic has devastated small businesses in Nevada, across the country, and put millions out of work. Many minority business owners in Nevada work particularly hard due to lack of access to capital, like we have discussed.

Congress stood up emergency lending programs to fill in these gaps. My office has heard countless stories from minority-owned small businesses struggling with the SBA's Economic Injury Disaster Loan, or EIDL, and one of the common complaints is that 1,000 per employee cap on EIDL Advance grants. And it is arbitrary $150,000 cap on EIDL loans, a 93 percent reduction from the $2 million level, we in Congress authorized in the CARES Act.

Small business owners. They have contacted my office telling me that $150,000 does not provide the support they need, and that without further help, they will likely be forced to permanently close their businesses.

This is why earlier this week, I introduced, along with Senator Cornyn, bipartisan legislation to address this problem, the EIDL for Small Business Act. This bipartisan bill would prevent the SBA from imposing any arbitrary limits on EIDL and EIDL Advance, including providing $10,000 grants to all eligible small businesses, regardless of their size, but also appropriate $100 billion of EIDL and $80 billion for the EIDL Advance program.

So, with that in mind, Mr. Busby, as you know, EIDL Advance program, well, it has run out of funds. I know that business owners in Nevada feel this is a particular problem.

Ken Evans, he is the president of our Urban Chamber of Commerce in Nevada, and he supports my effort. And I want to quote him. He said, "The EIDL for Small Business Act will help our businesses secure much needed capital to counter the impact of COVID–19 in the Southern Nevada region."

So can you please discuss why it is so important for us to recapitalize the EIDL and EIDL Advance programs and why it is critical that our smallest and most vulnerable minority-owned businesses receive the full $10,000 grant, regardless of their size?

Mr. BUSBY. Thank you so much, and also thank you to Ken who is a member of the U.S. Black Chamber, one of our chamber members there in Las Vegas. So, again, tell him thank you.

For us, again, many of our businesses were not able to participate in the Payroll Protection Plan. The title was difficult to understand. There was a real concern about "Will I be eligible? Do I have to pay the funds back?" and the transparency was really unclear. So for many businesses, we said take the other avenue of the EIDL loan.

The challenge with the EIDL loan was a couple of things. Credit was tied to the EIDL loan program, and so many of our businesses were not able to apply or to get funding because they did not have the credit score appropriate to be able to get funding.

Secondly, I think there was an either/or conversation for most business owners. Either I apply for PPP, or I apply for EIDL. For us, now that we understand, all of us understand a better clarity of both programs——

Senator ROSEN. Right.

Mr. BUSBY [continuing]. we are telling folk, "It is not an either/or. It really should have been about both," and for the businesses that did not have payroll, the EIDL loan was a much more appropriate program for them. And so we are looking for that to be funded fully.

As it relates to the smaller businesses, the microloan businesses, they should be able to apply for that in the EIDL loan, and it should be up to $10,000. It should not be based upon other criteria.

What we heard was during the first tranche of funds, those firms that got it did not have the same accountability, criteria, and questions that many of the small business owners are now having to face as it relates to the EIDL loan program.

So we are asking for it to continue to be funded. We want to make sure that it is there long term so that our businesses can be able to participate.

Senator ROSEN. Thank you.

I just have one last quick question to everyone on the panel. How can we strengthen these relief programs to get the money out more quickly? Do you have a suggestion what we can do to get the money out more quickly to those who need it?

Mr. BUSBY. I will start. I think that putting the money directly in the hands of the CDFI that we know fund the businesses in those local communities. Nothing wrong with the big banks, but again, based upon the financing of those large loans, many black businesses were not able to get it from the larger banks.

I think, again, as all of us have said, it really is about relationships, and many of our businesses have those relationships with the CDFIs. And so I would say fund directly to the CDFIs as well as funding the nonprofits that can make the microloans and the microgrants, I think, are extremely important.

Thank you.

Senator ROSEN. Anyone else like to give a suggestion to us quickly?

Ms. ESTRADA. For me, nothing more to add because it is clear that we have the relationship, and we know the small business owner and where is the need. And we could provide the financial allocation because, again, the frustration with the disaster loan with SBA, sometimes it is related to the cash flow, to credit, like Ron mentioned. We need to be sure the credit, if there is something we need to work, just to fix credit or wrong information that is in credit.

So, again, we need to give the support, but the financial allocation is key because, if not, there is another emergency, there is another situation where they are going to be set to fail. And we do not want our small business owner to be setting to failure.

Senator ROSEN. Thank you.

I believe my time has expired. So I thank you all for being here. I really appreciate the work you do.

Thank you, Mr. Chairman and Ranking Member Cardin. I appreciate it.

Chairman RUBIO. Thank you.

So just to close the loop now, to use my turn to talk about it, let me just first say that there are three common themes in the testimony today. The first is the technical help, the assistance with all the technical aspects of understanding who qualifies, how much do you qualify for—talking about PPP—and where can I go get it. The second is the access, finding the places that will actually do it for you, and then the third is the long-term capital needs, which I think is a critical component of it. And I want to take it in that order.

So on the first point about the technical help, I actually think that the point that was raised earlier, the statistic that I had asked Mr. Busby to confirm—70 percent of black-owned businesses were denied, 96 percent that got it got less than they asked for—is an important point.

The way PPP works, not to be redundant here, but it is important because it is a new program. This thing was thrown together. Senator Cardin and I were there, Senators Shaheen, Collins, and others. So we had to come up with something that could get out there quickly. I assure you had we put all that money in through an existing program, we would still be talking about 5 percent of the people having gotten it because it is just on the infrastructure for something that is brand-new. And there was confusion, and the rules were thrown together. Something this big and this new is always going to have those problems.

But the way the PPP works is you apply, and once you apply and the banks have it and they run it through SBA, the banks do not make the decision about getting it or not getting it. They cannot deny you a loan, and if they have, then they have broken the law.

What they can deny you is the opportunity to apply, but they cannot deny you the loan. They cannot say you cannot have a loan. The loan is 100 percent guaranteed by the Federal Government. There is literally zero risk for the bank. In fact, the bank pushes its cash out the door and within 8 weeks can take it to the Fed and sell of the loan, and they make a 5 percent fee on the smaller loans to begin with on top of it. So there is no denial process. You either qualify or you do not qualify.

What they can deny you is the application, “We are not doing any more PPP loans. We do not do loans for people that are not clients,” that kind of thing, or as was cited, I think, by Senator

Booker, they can discourage you from applying at the bank level. And that is one thing.

On the amount, the amount is automatic as well. They do not get to decide, well, you qualify for 50, but we are only going to give you 25. If you are approved, you are approved for up to two and a half times of payroll. There is no discretion involved there. There is no bank decision, again, because it is not their money. They are basically acting as the intermediary between the Federal guarantee and the pushout.

So that drives me to the point that it is—I do not know this to be true, but I am guessing that a substantial number of those that are a denial are actually not a denial of the loan. They are a denial of the ability to even apply, that in essence, they went to whatever their existing banking relationship is, and they told them, "We are not doing any more PPP loans," or they did not have ones they could go to.

Which leads me to the second point that everyone has raised, and that is lender access. I can tell you had it not been for regional banks—because the way we had to do it is how do you do something like this in 6 days. Well, first, you start with a baseline of 1,000 preapproved designated lenders who are a part of 7(a), and then you build on it. And it has built over 4,000 additional lenders, basically everyone, FinTechs and obviously the push to get CDFIs in later in the game as well. It was a process to get to 5,000. It is an important stable of lenders.

But the regional banks, I think it was Senator Ernst that raised this. Without the regional banks, this thing would not have worked. It is just that simple. What we found out with a lot of the bigger banks is if you were a large account, you were processed by the commercial division. If you were a smaller account, you were processed by the small business or the business division, and there are a lot more business applications than commercial applications. The commercial applications just moved a lot faster.

The other thing that I think we learned in time through all this, is that one of the things that they did do which worked really well is that the SBA designated like a 12-hour window in which they would only accept applications from smaller lending institutions, and it kind of cleared some of the backlog. It allowed those to get—because you can imagine. I mean, these larger banks had loaded everything up when that second tranche of funds became available, and they just smashed the system with these automated applications and almost crashed it. So that is important.

By the way, one of the things that I did want to point out, because the mention was made of 1099 employees, they actually for the first time ever were eligible for this sort of assistance. That is something we added into the bill. They would qualify for two and a half times whatever it is they make. I get it. It does not cover all their needs, but I think that goes back to the technical assistance piece, which is explaining to people these are your rights, this is what you are eligible for, and this is where you can go. So that, I think, highlights that. It also highlights the lender accessibility.

And then the third is the long-term figures because all of these impediments that I say do not exist or should not exist in PPP most definitely exist going to the market and saying I want a long-term, low-interest loan to be able to survive as a business, and that is a piece that I think we have to address and that we have some ideas on, others have some ideas on. But it is one we want to make a priority.

So just on those first two points, the technical assistance and the lender access, I think the point has been made repeatedly that CDFIs, whether it is not just making them eligible to be lenders, but infusing them with the cash to have the capital to transfer the funds, because you have to have the money. Money does not come from the SBA. It comes from the lending institution. So you have to have the cash in your accounts to push it, and then 8 weeks later, you could sell it. But you have to have it for 8 weeks, and if you do not have enough of that money, it limits the number of loans you can do. So that has come through loud and clear.

On the technical assistance piece, all of you had some different ideas about what the appropriate organizations are, and maybe I could just flesh out with all four of our witnesses. Obviously, all of you are a part of that assistance process, but if we wanted to make sure that more of these small businesses were aware of what they could get and where they could get it—because, by the way, one last point I would make is that is valid even now.

We have over $100 billion of PPP money sitting there right now that has not been accessed. So there are small businesses out there that are eligible for this that are not applying for it as we speak, and that is through to August 6th, thanks to Senator Cardin extended it to August 6th, right?

Senator CARDIN. The 8th.

Chairman RUBIO. The 8th, August 8th. So they could still do it today. So that tells you that there has to be—something is blocking between eligibility of people who need it that did not get it and getting after. This program has not ended, and now we are going to go into round two of it, which is going to be more tailored for the kind of businesses we are talking about. This impediment is still there.

So who is it that can help really sort of create the awareness and then the guidance to make sure your application is filled out right, you are getting what you are entitled to, and then on the forgiveness side, you are getting the pieces of it forgiven?

Let me start with Ms. Bayles, who is here now, and then I will go just down the list.

Ms. BAYLES. Thank you, Senator Rubio.

I would like to maybe provide a deeper level into the technical assistance that my testimony did not specifically say, and that is the role that service providers like myself play in all of this discussion.

So we get the money out quickly to CDFIs. Great. We allow flexible terms, longer terms. Great. But if that business does not have a relationship with a service provider, a year-round service provider that can make sure that all of the application requirements you have taken care of—tax, compliance, bookkeeping, to have those financial documents—if they do not have a relationship with the service provider, access to a service provider, this is all for naught, because they are not going to have the capacity because they are not looking at their numbers. So that is a little bit more than technical assistance.

I am educating you on the information that is out there, how you would qualify for the loan, but now I am also interpreting your data so that you can remain a healthy business and have the capacity to really use those funds to the max. That comes from the service provider perspective. That comes from companies like mine that are actually sitting down with the employee on a year-round basis after you have received the money or even in preparation of the money, but you are going to have to have a relationship with a service provider that can help you maintain the health of your business once you get the money.

So I think I want to add that piece and make sure that piece is not lost in this discussion, the vital role that a company like mine plays when it comes to just making sense of all of this to the business owner so they can stay open and really operate successfully.

Chairman RUBIO. And I would add be eligible for forgiveness——

Ms. BAYLES. That is right.

Chairman RUBIO [continuing]. because you have to be able to document all that.

Mr. Busby?

Mr. BUSBY. Thank you.

I think that we should and could fund the Minority Business Development Agency. We have seen their work. We know that they were created to help and support both technical as well as just boosting their acumen in reference to business readiness.

In our letter, we have requested a $10 million financial support to MBDA. We want it codified, and we believe that they have made direct relationships with many chambers of commerce and other nonprofit organizations around the country to ensure that those smaller and many times unrepresented firms get access to the capital that they need. MBDA is great at the technical assistance as well as the relationships, and they have boots on the ground through relationships like the U.S. Black Chamber and our 145 chapters around the country.

Chairman RUBIO. OK. Ms. Bilonick?

[No response.]

Chairman RUBIO. Ms. Bilonick?

Ms. BILONICK. Yes. I would say that I believe the best sort of conduits for the technical assistance would be community-based organizations and CDFIs. It would not necessarily only need to be CDFIs. There are plenty of organizations that strictly provide technical assistance and educational services to small businesses, but I just think the idea of funding in organizations that are entrenched in the community is an extremely important priority.

Chairman RUBIO. How are those normally recognized? Are those normally (c)(6)s?

Ms. BILONICK. (c)(6)s? No. (c)(3)s.

Chairman RUBIO. (c)(3)s?

Ms. BILONICK. Yeah. Or CDFIs.

Chairman RUBIO. Okay.

Ms. BILONICK. The one thing that I wanted to add, though, just to sort of color this is that while we are all saying that we have really deep relationships in the community, which is true, I think there is an untapped market of businesses that could use our services that do not know about the CDFI industry at all.

I was on a call yesterday where someone said it is less about what our name it and it is more about what we do. I think the name "CDFI" is not very easy to digest, and so I think it is just an unknown resource that is out there for small businesses. I could not tell you how many times we have had clients walk in and say had it not been for my neighbor or had it not been for my brother, I would have never known that this kind of organization exists.

So in cities like D.C., where we have been for 20 years, we do not have that much of a challenge, but I do think there is something that could be done. I do not know that it is the role of the Federal Government to do it, but there is something to be done around broader marketing of CDFIs in general, because I believe that there are many, many businesses that could use our services, many more than currently use it, that are just simply not aware that we are here.

Chairman RUBIO. Okay.

Ms. Estrada?

Ms. ESTRADA. Yes. I have to be in agreement that we need to have more awareness about the CDFIs and what we are doing, and remember that probably the service that we provide, we work really well with the major lenders, with the banks, because our mission as well as for this business owner to graduate for the traditional lending system.

Also, with our clients, that they work really very well with the MBDA. Also, they work really very well with the SCORE. Another, they work really very well with local community organizations. So my suggestion, if I may, it should not be just to identify only one organization. It should be a network of organizations, that we could work well together because, like mentioned here today, we need to be all together in order to sabotage the economy.

Chairman RUBIO. Okay. Senator Cardin, did you have a follow-up?

Senator CARDIN. Yes. Thank you, Mr. Chairman.

I just really want to thank all four of our witnesses. I think this has been an extremely important hearing.

I just want to make a brief comment. On the PPP program, we had some challenges, but we knew from the beginning that there were going to be challenges using existing and new lenders. And that is why we put the language in there urging the administration to make a special effort to deal with the underbanked community, and we were disappointed by the initial response. We then adjusted the program.

The Treasury was certainly much more responsive than SBA to these issues, and we made certain changes. And it helped the underbanked and underserved and minority communities.

But we also recognized that we needed the EIDL program in there. Mr. Busby, I agree with you completely. The EIDL program, we anticipated would be a program that could help the smaller small businesses, the minority small businesses to a greater extent, and you should not have chosen between the PPP and EIDL. Both were available, and the EIDL was supposed to give you some grant money up fast, quickly, and it didn't. And the EIDL program is supposed to be there for filling in the gaps, and it was not available. The window was closed, and the dollar amount caps were set. Then the information was not out there about how these two programs work together, not as an alternative.

So I just mention all of that because as we look at COVID 4 legislation, the legislation that hopefully we will be considering as early as next week, I hope that we can figure it in a way to deal with the issues that we have talked about today, about making sure that we get it right from the beginning, and we do what is right for the underbanked, underserved communities that we have seen were at a disadvantage at the beginning of the PPP program and were not served as well as they should have been under the EIDL program.

So whether we adjust these programs or we look at the other programs that you talked about or we have set-asides, we have to make sure that we do a better job from the beginning, and I think this hearing has really helped us.

And I very much appreciate the manner in which the Chairman manages our committee, gets the input of all of our members, and we all share the same objective, to make sure that all businesses in our community are served and there is access to capital for those who traditionally have had a much more challenging time getting access to capital.

So thank you, Mr. Chairman.

Chairman RUBIO. Thank you.

And I took want to thank the witnesses because, I mean, the goal coming in here is the following. Set-sides were important because it prevents you from running out of money, but I think we can all predict that this second round of assistance will be much more narrowly targeted at truly smaller businesses and those that have suffered tremendously.

So there will still be pressure on money running out, but it will not be as acute as it was the first time. It will still be significant. So set-asides are important, but in essence, the targeting itself is a set-aside in that way.

The bigger challenge is we are sitting here saying there are still thousands of businesses out there that could be using this help and are not accessing it—why is that?—answering that question, and I think we have gone a long way today toward getting answers to some of those questions. And they are complex. Some of it is the organizations that could help connect them either do not have the funding or the resources to reach them. Some of it is just awareness. We take for granted how small businesses, frankly, are just not aware of all the stuff that is out there, because they are busy surviving as a business, especially in these times.

So I think today we went a long way toward really pinpointing what more can we do. It is not just enough to have more lenders. You also have to have people know they exist. You have to have people help guide them, how to fill out the application, how to manage the funds once they get it so they can survive, and how to position themselves for forgiveness as well. Otherwise, you wind up in a situation where you actually owe some money when you should not be because you could have easily met the criteria.

Again, that is tough to do when the president, the treasurer, the CFO, and the employee is the same person, and they happen to be the only employee of the company. So the smaller you get, the harder that is. So I really do think today's hearing has helped us hone in on some of those impediments.

So thank you for your patience. We are two and a half hours, as you saw a lot of member interest in this topic. I appreciate everything you have told us today. Believe me, it is meaningful. I was taking notes and have already passed on a bunch of them, if they can understand my handwriting, and then I will tell them what it meant.

And for the members, the hearing record will stay open for 2 weeks. Any statements or questions for the record should be submitted by the 6th of August at 5 p.m.

With that, this hearing is adjourned. Thank you to our witnesses. Thank you. Thank you.

[Whereupon, at 12:27 p.m., the hearing was adjourned.]

APPENDIX MATERIAL SUBMITTED

AIANTA
American Indian Alaska Native Tourism Association

CHIEF EXECUTIVE OFFICER
Sherry L. Rupert

July 23, 2020

TESTIMONY OF

SHERRY L. RUPERT

CHIEF EXECUTIVE OFFICER

AMERICAN INDIAN ALASKA NATIVE TOURISM ASSOCIATION, INC.

(AIANTA)

PREPARED FOR THE

UNITED STATES SENATE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

ON

"CAPITAL ACCESS FOR MINORITY SMALL BUSINESSES: COVID-19 RESOURCES FOR AN EQUITABLE AND SUSTAINABLE RECOVERY"

Chairman Rubio, Ranking Member Cardin, and members of the Committee, thank you for the opportunity to provide testimony on behalf of the American Indian Alaska Native Tourism Association, Inc. (AIANTA) on the impact of COVID-19 on tourism businesses and enterprises owned and operated by American Indians, Alaska Natives and Native Hawaiians and the need for resources for recovery.

AIANTA is the only organization specifically dedicated to advancing American Indian, Alaska Native and Native Hawaiian tourism across the United States. AIANTA helps tribes develop, sustain and grow tourism destinations through technical assistance, training and educational resources Our mission is to define, introduce, grow and sustain American Indian, Alaska Native and Native Hawaiian Tourism that honors Indigenous traditions and values.

Cultural Tourism is a Significant Economic Driver

Prior to global travel bans and closures, tourism was a leading opportunity for jobs and economic development in Native Nations and communities. In some rural and remote communities, it is one of the only viable opportunities for jobs, revenues and family incomes.

Cultural tourism is a significant draw for domestic and international visitors alike, because of what Native Nations and communities offer— memorable and unique experiences, warm hospitality and beautiful landscapes throughout America.

According to U.S. Travel and Tourism, nearly two million overseas visitors traveled to Indian Country in 2018. This was a record high for overseas tourism of which Indian Country and its economies have just begun to experience. The impacts are substantial:

- More than 41,000 new jobs created in 2016.
- A 180 percent increase in overseas visitors since 2007 when AIANTA began its international outreach efforts.
- According to the National Travel and Tourism Office, overseas travelers to Indian Country, a subset of travelers known as Cultural Heritage Travelers, have a far greater impact on the U.S. economy than overseas visitors as a whole.
  - ✓ They stay longer— an average of 30 days compared to 18 days for all overseas visitors.
  - ✓ They visit more states— an average of 2.4 states compared to 1.5 for all overseas visitors.
  - ✓ They visit more destinations— an average of 3.6 cities compared to two cities for all overseas visitors.
  - ✓ They visit more National Parks, small towns, historical locations, art galleries and museums, fine dining establishments, and cultural, ethnic and heritage sites compared to all overseas visitors.

The American Indian, Alaska Native and Native Hawaiian (AIANNH) tourism industry has begun meeting this demand. According to the U.S. Census, in 2012, there were 67,248 AIANNH hospitality-related businesses in the United States, reflecting a fifty-nine percent (59%) growth from 2007-2012. This growth rate well surpassed the twenty-two percent (22%) growth rate of all AIANNH businesses and the two percent (2%) growth rate of all American firms. Total receipts for AIANNH hospitality sector businesses in 2012 equaled $7.681 billion. The sector saw increased job growth as well with a seventeen percent (17%) increase in the number of paid employees in AIANNH businesses across all hospitality sectors.

The Great Pause and Uncertainty in the Travel Industry in a COVID-19 World

According to the U.S. Travel Association, before the coronavirus pandemic, the travel industry contributed $2.6 trillion to the American economy, supported 15.8 million American jobs overall—8.9 million directly— and delivered a $69 billion trade surplus last year. Travel was a number two overall export for the U.S., a one in 10 employer in every state and a critical driver of economic development for communities nationwide.

To put the significant impact of the travel/hospitality industry on the American economy in perspective, at the height of the depression, the unemployment rate was twenty-five percent (25%). According to the U.S. Travel Association, this year, the travel industry faces a fifty-one percent (51%) unemployment rate.

Impact of COVID-19 on American Indian, Alaska Native and Native Hawaiian Tourism

Tribal Regions Map

According to a survey conducted in March of 2020 by AIANTA, "Impact of COVID-19 on Indian Country," Indian Country enterprises are very concerned about how COVID-19 will affect them. Initial responses include representation from all six of AIANTA's regions.

Although at the early stages of the unfolding health and economic crisis, tribes and tribal business are seeing significant cancellations for domestic and international bookings, reduced revenues and job lay-offs.

In a 2019 State of Indian Country Tourism survey, which queried AIANTA's database of Native- and tribally-owned hospitality businesses, seventy-five percent (75%) of respondents believed tourism would increase greatly or somewhat in the coming year. Now, because of COVID-19, sixty percent of respondents following COVID-19 predicted losses greater than fifty percent (50%) of their current revenue.

Compared to an earlier survey, nearly half of respondents anticipated growth in regional (49%), domestic (46%) and international (45%) visitation. Further, when narrowing the scope to just those respondents who indicated they expected growth in tourism, eighty-nine percent (89%) said they believed domestic tourism would increase and sixty-nine (69%) said they believed international tourism would increase.

COVID-19 travel interruptions have significantly altered travel projections. As we work towards recovery, fifty-nine percent (59%) of respondents to AIANTA's Impacts of COVID-19 survey indicated economic/financial support was their first priority and eighteen percent (18%) of respondents felt marketing/advertising support was their first priority.

Impact of COVID-19 on the Health and Well-Being of American Indian, Alaska Native and Native Hawaiians

COVID-19 is not only bad for tribal economies; tribal communities need to protect themselves from the virus. This includes not welcoming visitors during this uncertain time. Due to significant health disparities and health implications of COVID-19 for American Indians, Alaska Natives and Native Hawaiians, there is a need for tribes to close their borders to visitors.

As of May 12, 2020, there were approximately 1.3 million cases in the U.S., or an infection rate of 400 cases per 100,000 individuals. According to Indian Country Today, the average rate of collected data indicates a rate of 32 cases per 100,000 individuals. However, there are underlying chronic health issues, comorbidities and proximity to hot spots that create wide variances across Native Nations and communities – for example: in May of this year, Navajo Nation led the nation in infection rates in the U.S. with 2,304.41 cases of COVID-19 per 100,000 people.

This significant risk, with an uncertain end date, has prompted many Native Nations to close their borders and operations to protect their people.

How the CARES Act is Working for AIANTA Members

Many AIANTA members are small businesses and tour operations that lack banking relationships to have been included in the first and second rounds of the Paycheck Protection Program. For others, without having the timing and amount determined, it was difficult to maintain operations and plan for next steps and phasing of their business response to COVID-19 impacts. This is significant when you look at the economic devastation caused across cultural tourism operations nationally. Examples include:

- The high rates of infection on Navajo Nation forced the closure of all tourism operations
- With limited medical supplies and access, Tribal Leaders across Indian Country have closed tribal borders to protect vulnerable populations, first language speakers and elders
- Cruise lines have suspended operations worldwide with devastating effects on Native Alaskans in Southeast Alaska. The suspension has eliminated the tourism season for cultural tourism programs and business for all of 2020 – including Native Villages that are only accessed through the cruise line visitor traffic
- The dramatic decrease in air travel, car rentals and the closure of public lands have also been particularly hard on tribal gateway communities

This dramatic reduction in revenue coming to Indian Reservations, Native Villages and Native Hawaiian communities have immediate and long-term impact on the ability for Tribal Nations, Native Villages and Native Hawaiians to support immediate needs for their people (healthcare, access to food and water, internet access, schooling) to the longer term, much needed infrastructure development.

Improvements to Federal Law

While improvements were made to the Paycheck Protection Program, more needs to be done. Without the traditional support structures (taxes and fees) that support tourism, native enterprises, small businesses, tour operators and artisans need access to capital and support.

AIANTA urges Congress to support relief for cultural tourism businesses in COVID-19 legislation. Including providing funding for Native Community Development Financial Institutions (NCDFIs) and to waive restrictions on Small Business Administration programs for Tribal Business Concerns and NCDFIs to provide for emergency funds and waiver of program restrictions.

Additionally, while the Coronavirus Relief Fund is providing much needed resources to tribal governments to respond to the pandemic, more flexibility is needed for spending funds to protect their people, lands and resources. Further, more time is needed to spend such funds due to the delay caused by litigation and the burgeoning reality that there is no end in sight for this pandemic.

What Investments are Needed to Support American Indian, Alaska Native and Native Hawaiian Tourism

Investments in training and access to capital are critical for cultural tourism recovery. In the immediate term, the investments in Native Nations will localize the economic impact. In the mid to longer term, the investments in tourism is an investment in the economic well-being of people living on reservations, native villages and native communities. The businesses that support tourism also support the economic ecosystem of each tribal nation and native community.

Cultural tourism operations are working hard to survive the lost revenues and employee layoffs.. For example, we have members that have converted their tourism operations to hand sanitizer production to keep their businesses going and to hold on to staff. Others are making the shift from in-person to online product sales.

American Indian, Alaska Native and Native Hawaiian tourism enterprises and businesses need support to stabilize their businesses. Resources are needed to respond to the opportunities presented by localized travel; according to RVshare, bookings are up 650% as American's explore less traveled destinations and landscapes and, according to Destination Analytics, of Americans that already have a destination in mind for leisure travel, 32% said they will visit a small town or rural areas.

American's that are traveling are concerned about operational practices to keep them safe during their visit. Destination Analytics found the top three desired hotel COVID practices are for staff to wear gloves and masks, well-explained cleaning procedures and for guests to be provided with masks, hand sanitizer, disinfectant wipes and other safety products. All of these expectations require an investment by businesses in additional specialized staff, COVID-19 testing, personal protective equipment and supplies; investments that are difficult to make without access to financial support.

There is also a need for access to technical assistance and training to address the business challenges, while embracing new opportunities, including the development of an online presence for marketing tourism destinations and products.

In addition to the challenges, these first waves of travel also provide the opportunity to create travel relationships that will bring visitors back in the mid to longer term as travel resumes and the impact of COVID-19 subsides.

Conclusion

On behalf of Indian Country, AIANTA thanks Congress for its support of tribal tourism. We look forward to working with the Committee to ensure American Indian, Alaska Native and Native Hawaiian tourism is supported during these uncertain times and thrives again as the world reopens. AIANTA stands ready to help reboot the American economy by supporting cultural tourism enterprises and businesses.

United States Senate Small Business & Entrepreneurship Committee

Committee on Small Business & Entrepreneurship

Questions for Ms. Marla Bilonick

Questions from: Senator Cantwell

Smallest Businesses

Up to 98% of all Black-owned businesses in Washington state have less than 10 employees, according to the Census Bureau. The smallest businesses are disproportionately owned by minority entrepreneurs in underserved communities across our country. Access to microloans and small dollar loans has always been very important to minority entrepreneurs. Access to capital is even more important now to survive the economic impact from the COVID pandemic. My office heard from a minority business owner who runs an acupuncture practice in Clark County, Washington. She did not receive a PPP loan in the first round when she applied through a national bank and only received half the money she requested when the PPP loan was finally approved. As you know all too well and as the SBA Inspector General has found, small businesses in underserved communities have not been adequately prioritized by the SBA's COVID-related assistance programs.

QUESTION 1: What needs to change at SBA and Treasury to make sure banks and CDFIs ensure that the smallest businesses with 10 employees or less get access to capital?

In my testimony, I stated that the small businesses we provided PPP loans to as a CDFI, took out loans at an average amount of $30,000. The nation's average PPP loan size is closer to $100,000 and nearly 87% of PPP loans in the nation were for less than $150,000. These relatively small loans are supporting true "mom and pop" small businesses---those with 10 or fewer employees and less than $1MM in revenue---helping them stay open and keep their employees on payroll. There is a potential for great impact in exchange for relatively low-dollar investments in these small businesses to keep them afloat and keep their workers employed. This is why it was disappointing to see large national chains and multi-millionaires requesting and receiving PPP loans. Their loans represent a forgone opportunity for multiple small businesses to have taken on PPP financing.

Therefore, I support the SBA's updated fee structure that pays lenders for processing PPP loans in the following amounts: 5% for loans of not more than $350,000; 3% for loans of more than $350,000 and less than $2,000,000; and 1% for loans of at least $2,000,000. This structure incentivizes making more, lower-dollar loans that are inherently aligned with the needs of the small businesses that are the engine of the U.S. economy.

Because CDFIs are best positioned to serve the very businesses that PPP and other assistance programs were designed to uplift; I also recommend the approval of $1 billion in rapid response CDFI Fund (Treasury) grants. Liquidity is a significant challenge for many CDFIs and this solution will help to address liquidity challenges faced by community-based financial service providers that are entrenched and at the ready to serve small businesses in low- to moderate-income neighborhoods and beyond. These funds must also address the operational funding required for CDFIs to deploy capital, which are significant due to the intense technical assistance we provide to applicants that accompanies most loans we make.

Another consideration would be to facilitate the process for CDFIs to be delegated authority to offer the SBA "7(a) Small Loan" which does not require collateral for loans up to $25,000. Insufficient collateral is an impediment to accessing capital that affects many potential borrowers we work with.

Overall, CDFIs need to be front and center of any plans to develop and implement small business loan programs---whether those are standard programs or crisis response programs. It was our observation that CDFIs were brought into the fold as an afterthought, specifically with regard to the PPP program. This was confusing as traditional models for community lending are centered around neighborhood based CDFIs. There is great potential for CDFIs to provide significant contributions in the program design phase as well as in implementation. It is my hope that this potential is tapped into more frequently moving forward.

QUESTION 2: How could we better target the Paycheck Protection Program and other small business assistance in the next COVID package to make sure that the smallest minority-owned businesses get the help they need?

As stated above, the best way to reach the smallest minority-owned businesses is to put CDFIs at the center of small business assistance programs. CDFIs have the relationships, trust, and capacity to best serve those smallest neighborhood businesses. In order to deploy this assistance, CDFIs will require sufficient liquidity (loan capital) and operational funding to expand their capacity during times of crisis when demand skyrockets.

In terms of program design; a set of our clients that applied for PPP loans were denied due to insufficient back-up/payroll documentation. In order to eliminate this hurdle, the application could rely on tax records as sufficient documentation of employee payment without requiring additional support documents.

In addition, it would be beneficial for PPP (or a PPP-like product) to consider operating expenses in the loan request calculation formula. The current formula only takes into account payroll expenses (although can be applied to operational expenses, in addition to payroll, once received). Therefore, the loan amount requested is not always aligned with the comprehensive set of challenges to staying open that the smallest businesses face.

Another suggestion that targets the needs of small business ***employees*** is that PPP (or a PPP-like product) could be a vehicle to offer better working conditions to employees that are incorrectly hired as independent contractors. (Many small businesses hire 1099 workers to essentially work as full-time employees that are not able to access the benefits that W-2 workers have.) If the program allowed businesses to calculate their loan request based on all employees (including 1099 workers)---*as long as they re-hired them as W2 employees*---this could create an incentive for small businesses to provide more responsible and robust employment opportunities in the communities where they are located.

While the PPP allows independent contractors to request a PPP loan for themselves; in many cases 1099 employees do not go on to find another company to work for and their original employer (technically, their "client") will not have received sufficient funding to reinstitute them in their previous capacity at the company because their PPP loan amount was only calculated based on W-2 employees.

Questions from: Senator Hirono

Community lenders in PPP

Ms. Bilonick, during your time as a PPP lender I am sure you have experienced the challenges we have heard about from other community lenders. I have certainly heard from Hawaii lenders who have experienced challenges with the program and would be interested to learn more about how these challenges have impacted your clients.

QUESTION 1: Can you elaborate on some of the challenges you have experienced as a PPP lender?

We faced the following challenges as a PPP lender:

Liquidity: When faced with a great number of potential loans that we had not anticipated at the start of our fiscal year; we had to move quickly to raise sufficient capital to offer the PPP product. I know from conversations with colleagues in the CDFI industry that this was one of the greatest hurdles to offering PPP.

In a matter of days, we took on $3 million in debt. This required a herculean effort of reaching out to any and all of our supporters to identify potential sources of fast capital. Due to the speed with which we wanted/needed to receive the capital; the terms on the debt we took on were not necessarily favorable or the most attractive for us. The longest term of the three loans we received is two years. This will limit our ability to take on additional debt to have sufficient liquidity for future PPP or PPP-like products.

Program Mechanics: We appreciate that PPP was a fast-moving train that in some ways was being built after it had already left the station. This is the nature of emergency response work and so we did not expect things to be smooth or easy. However, we faced significant challenges going "live" in the SBA's E-Tran system that delayed our ability to start deploying loans. Once "live," we struggled to be granted multiple accounts for our loan officers. The E-Tran system was also often down or overloaded during traditional business hours, so our staff had to log on in the middle of the night (e.g. 2 AM) to be able to upload applications. We were very pleased that the SBA later set aside hours for CDFIs that were competing to upload applications against commercial banks that were processing massive numbers of loans in batches. This eased the pressure on the system and gave space for CDFIs and smaller lenders to submit our applications.

Not having worked in the E-Tran system nor having deployed PPP loans before, our staff had many questions, but there were not sufficient resources for finding answers. In order to understand how to use E-Tran, my staff ultimately relied on YouTube videos (thank you, internet!) and a guide that M&T Bank kindly provided us that they were using internally to understand how to use the E-Tran system for PPP. The sharing of the M&T Bank guide happened organically because of relationships between staff at our organizations.

When we had questions about the program, we sent emails into E-Tran that grenerated auto responses that it appeared were not being monitored---or perhaps the sheer volume of questions was too massive to allow for responses. Ultimately, a call center was established to answer lender questions, but the individuals on the phone lines did not seem particularly knowledgeable about PPP. My staff got into the habit of calling multiple times until they could find someone with an answer to their question. This was not the best use of their time when they had long queues of small business owners hoping to access this loan product. Weekly calls were instituted between PPP lenders and SBA's regional offices, but staff were not always able to answer all of the questions posed by participating lenders.

I commend SBA staff for rolling out this and other critical and effective crisis response products. The impact of products like PPP and EIDL will be positively felt for years to come. I simply think that the magnitude of the demand (When has there ever been a crisis that touches every single corner of the United States?) over-burdened them. I think that alternative solutions could be considered in the future, such as mentorship opportunities between banks and CDFIs. The organic sharing experience we had with M&T Bank is illustrative of the potential for support and training that could be provided to lenders without further burdening SBA resources.

Staff/Operational Capacity: When faced with the sudden surge in demand for small business assistance (PPP and other) brought on by COVID-19; our existing capacity was tested to its limits. We did not have enough loan officers to adequately service the number of loan requests coming in. Therefore, we re-focused staff from our small business technical assistance teams to also process loan requests. We also hired additional staff to help service PPP requests.

Also, our staff was not familiar with this product. So, there was a learning curve associated with getting up to speed with its particularities. This is outlined in detail above.

Without the support of funders that provided us with rapid and unrestricted COVID-19 funding; we would not have had the operational funds to effectively deploy PPP loans. This funding allowed us to hire additional staff to support our already stretched internal teams.

QUESTION 2: How have these challenges impacted your clients that are minority-owned businesses?

By the time we were live in the system and ready to deploy PPP loans, the first round of PPP funds had been depleted, and mostly by banks. So, our clients inherited our delay and did not access loans until the second round was in play.

Once the second round was ready for deployment, banks already had pipelines left over from the first round---which pushed small and minority-owned businesses even further behind in the queue if they approached banks once second round funds were available.

In addition, we understand that many banks only/predominantly serviced PPP loans for existing bank clients. In the case of our CDFI, the Latino Economic Development Center-LEDC, 25% of our PPP loans went to clients that did not have a previous relationship with our CDFI.

Our clients also had many questions or unique scenarios that we had challenges finding answers for as detailed above. This and our customers' lack of familiarity with the application's process and required documentation meant that most loans we made were coupled with intensive technical assistance.

Lastly, a group of our clients do not dominate the English language and that required significant support with providing clarity on the application process and supplemental documents required (even if using a translated application).

QUESTION 3: Can you share more about what they have experienced?

In addition to the challenges outlined above, we saw the following challenges from clients that came through our doors for PPP.

- Many clients initiated processes with banks that never came to a conclusion. They were left in limbo and came to us to start the process anew. So, they were not denied a loan, but their application simply did not have sufficient priority vs. larger or more established bank clients.
- Oddly, several of the loans we processed turned out to have been approved by banks, but the clients were not informed of their approval. We found this out when attempting to upload their applications into E-Tran (which notified us of the client's prior approval elsewhere.) This wasted our time---time that could have been spent processing someone else's loan.
- Our clients spent a sizeable chunk of time with us understanding the application and required back-up documentation. This resulted in delays and reduced capacity to increase loan volume on our end.
- A number of banks closed their PPP application processes well in advance of the August 8th deadline and so clients that were shut out due to that window closing came to us. We closed our application window on August 6th for the August 8th deadline and, out of those clients that were not able to pull their application materials together by August 8th; we have a pipeline of clients ready to access a future round in whatever form that might take.
- Because of COVID-19, our entire loan marketing, training, and loan application processes were done over internet and phone. We are quite certain that a number of customers we would have been able to provide this product did not have adequate information about the PPP product and/or were not able to apply due to insufficient at-home technology and/or broadband access.

QUESTION 4: Have these challenges been addressed?

We have addressed the challenges that are within our control. We included time needed to provide technical assistance to clients into our estimated loan turnaround times. We also have done everything we can to support our clients that have limited access to technology and internet by using our own internal tech and internet to help them apply. Currently, we are examining ways to provide hardware and software to clients that do not have strong technological infrastructure.

QUESTION 5: If not, then what recommendations would you make to improve the program for minority-owned businesses? Many Hawaii lenders have started to think more about the loan forgiveness process for PPP.

At the risk of sounding repetitive, I believe that the best way to have this and other small-business focused programs reach minority-owned businesses is to view CDFIs as the primary vehicle for deploying loans in the hardest to reach, low- to moderate-income communities throughout the United States. CDFIs have the trust, relationships, community competency, cultural sensitivity, and capacity to serve those small businesses that have been turned away by traditional lenders.

We commend the SBA for publishing/offering the PPP application and its forgiveness in many languages to ease and encourage access by immigrant-owned businesses and hope to see this continue with future assistance programs.

QUESTION 6: In your opinion, how can we make this process easier for community lenders? Smaller businesses in PPP Ms. Bilonick, I have been focused on making sure our "smaller" businesses, including those with 10 and fewer employees, receive assistance through PPP. These are the "mom-and-pop" businesses that many times may have difficulty accessing programs like PPP. I think we can go further to provide these businesses with assistance.

Community lenders would benefit from access to low - or no-cost capital for adequate liquidity to provide this assistance. This could come from an approval of $1 billion in rapid response CDFI Fund grants.

This should be coupled with operational funding to support staff that are dedicated to the deployment of these products. Loan deployment on its own takes time in terms of the transactions themselves. But, for each transaction, our loan officers and small business coaches have spent hours behind the scenes providing technical assistance that helped to make the loan transactions possible.

We would also benefit from support resources and technical assistance while implementing new products. This is an opportunity that could be addressed by a formal mentorship between CDFIs and banks that are implementing the same assistance products.

QUESTION 7: Can you elaborate on some of the challenges your "smaller" business clients have experienced? What has been their overall experience with PPP?

Many of our clients suffered from the lack of ability to include 1099 workers in their calcluation of payroll expenses. Loans based on payroll only to W-2 employees did not provide a complete picture of the payroll expenses that many of our businesses have. This may leave businesses without the ability to afford re-hiring their 1099 employees and will result in many 1099 workers being left without employment. Without being able to re-hire 1099 employees; small businesses that rely on a combination of W-2 employees as well as 1099 contractors to deliver their goods or services will be at a disadvantage as they attempt to re-open or stay open.

In addition, the vast majority of our small business clients did not have adequate savings on hand to weather a sudden and drawn-out stop in revenue flow. Those that did have savings have depleted those savings. Even the most creative businesses that have adapted and added new products/services, e-commerce capability, delivery, pick-up, or take-out services have not been able to come close to replacing the revenue they have come to expect in prior years. Even as jurisdictions begin to re-open, social distancing guidelines and customers' (well-founded) fears to shop or dine in public will severely limit the possibility for matching previous years' revenue. PPP will help in terms of helping businesses keep employees on, however, it is likely in the long-term that there simply will not be sufficient business income to keep those employees on.

A final issue that we/our clients have been grappling with---and that has been exacerbated by the pandemic---is commercial tenant rights. Commercial space issues undermine people are using this time of crisis to push out tenants that are vulnerable due to lost revenues.

No loan or grant amount and no level of technical assistance is enough of a buffer for landlords taking advantage of businesses that are vulnerable due to lost income resulting from the implications of COVID-19. While some jurisdictions instated temporary pauses in rent, many businesses simply will not be able to meet their rent requirements once they are expected to pay rent again, or in the medium- to long-term. Some our clients, lacking legal support or review; signed predatory leases that provided them minimal rights and allowed landlords to evict them with little or no notice. Given that so few of the smallest business owners own the real estate that they do business out of; their position is precarious at best with regard to the stability of their business location.

This issue undermines all of the work that we do to support and help grow small businesses. It is our firm belief that commercial tenant rights must be expanded and that programs should be put into place to put business owners on the path to owning the commercial spaces they operate out of. Similar to affordable housing initiatives, there should be programs put in place that provide support such as down payment assistance to small businesses looking to own their locations. Such initiatives would also help to build business owners' assets and increase the wealth of the smallest/minority-owned business owners and their families.

QUESTION 8: What changes should we consider to improve the program for these businesses?

(Copying my response to the same question---#2---from Senator Cantwell)

The best way to reach the smallest minority-owned businesses is to put CDFIs at the center of small business assistance programs. CDFIs have the relationships, trust, and capacity to best serve those smallest neighborhood businesses. In order to deploy this assistance, CDFIs will require sufficient liquidity (loan capital) and operational funding to expand their capacity during times of crisis when demand skyrockets.

In terms of program design; a set of our clients that applied for PPP loans were denied due to insufficient back-up/payroll documentation. In order to eliminate this hurdle, the application could rely on tax records as sufficient documentation of employee payment without requiring additional support documents.

In addition, it would be beneficial for PPP (or a PPP-like product) to consider operating expenses in the loan request calculation formula. The current formula only takes into account payroll expenses (although can be applied to operational expenses, in addition to payroll, once received). Therefore, the loan amount requested is not always aligned with the comprehensive set of challenges to staying open that the smallest businesses face.

Another suggestion that targets the needs of small business ***employees*** is that PPP (or a PPP-like product) could be a vehicle to offer better working conditions to employees that are incorrectly hired as independent contractors. (Many small businesses hire 1099 workers to essentially work as full-time employees that are not able to access the benefits that W-2 workers have.) If the program allowed businesses to calculate their loan request based on all employees (including 1099 workers)---*as long as they re-hired them as W2 employees*---this could create an incentive for small businesses to provide more responsible and robust employment opportunities in the communities where they are located.

While the PPP allows independent contractors to request a PPP loan for themselves; in many cases 1099 employees do not go on to find another company to work for and their original employer (technically, their "client") will not have received sufficient funding to reinstitute them in their previous capacity at the company because their PPP loan amount was only calculated based on W-2 employees.

QUESTION 9: What other changes should we consider to provide assistance for businesses?

The SBA's assistance products (loans/forgivable loans) will be critical to small business survival during this time of crisis and the products are very generous and effective based on what we have already been able to see from our borrowers' experiences.

However, I would strongly recommend considering a grant or stimulus option for the smallest businesses in the United States, that are the largest employer in the U.S. and also some of the most vulnerable to the impacts of COVID-19 related closures. Taking on more debt during an already vulnerable time is not a wise choice for many of the smallest business owners in America. A recovery grant or stimulus check for smaller businesses (10 employees or less and with revenues under $1 million) could help to keep the smallest businesses and minority-owned businesses alive and give them a fighting chance to survive this time of uncertainty. Currently, the smallest businesses (as defined above) are numbered at around 14 million businesses in the U.S. Coincidentally (or not), those U.S. businesses with below $1 million in revenue also total approximately 14 million businesses. This is the subset of American small businesses that could benefit most from such a grant or stimulus product. Potentially, these grants or subsidies could be given on a sliding scale based on number of employees (between 1-10) and annual revenues (up to $1 million). From what we've seen as an average PPP loan amount, to this very subset of small businesses in the markets we serve, a maximum amount of $25,000 per business would have a significant impact in helping to keep businesses afloat without being prescriptive about where in their business operations the money would need to be applied. We trust that business owners, especially those like our clients who often need to make critical decisions about prioritizing business expenses, will know how to best plug in those funds to keep their businesses afloat.

Question from: Senator Duckworth

Peaceful protests in support of Black lives have been occurring throughout the United States since early June. Unfortunately, during the early days of protests, some businesses located in predominantly Black communities suffered property damage or looting, due to a small group of individuals taking advantage of these protests for justice. Many of these business owners are facing revenue shortfalls due to COVID-19, and now must also cover costs for those damages. Given the situation these businesses face, I'm developing legislation that would offer targeted loan forgiveness of up to $150,000 for businesses seeking to utilize SBA loans to cover these expenses.

QUESTION 1: Ms. Bilonick, do you think Congress should consider such legislation, and what else should we look at to make sure we are getting this assistance in the hands of business owners that need it most?

Congress should absolutely consider legislation that would provide targeted loan forgiveness of up to $150,000 for businesses seeking to utilize SBA loans to offset the property damages, inventory damages, and lost revenues that have resulted from looting. While I understand how years of injustice rightfully incite civil unrest; it is unfortunate when small and minority-owned businesses are hit with damages resulting from that unrest.

The Latino Economic Development Center-LEDC, was on the ground during the civil unrest that ensured following the death of Freddie Gray in Baltimore and we witnessed first-hand the damages that were done to neighborhood businesses. We provided a tailored loan product for the businesses that suffered damages and this rapid financing was critical to their rebuilding and recovery.

The current times signify that businesses that were damaged or looted during recent Black Lives Matter protests were already vulnerable due to the severe negative financial impacts of COVID-19 closures. Therefore, I wholeheartedly support your efforts to provide relief to these businesses in already suffering communities that could use the support as they work toward rebuilding and a more stable future. Thank you for putting forth this important legislation.

Statement by Coalition to Help Everyone Access Resources to Thrive (HEART)
Re: Assistance for Nonprofits and Faith Based Organizations

Thank you Chairman Rubio, Ranking Member Cardin, and distinguished Members of the United States Senate Committee on Small Business and Entrepreneurship for this tremendous honor to share our testimony with all of you today. We, the undersigned, come on behalf of the tens of thousands of small, non-profit and faith-based organizations who have always been the invisible safety net in the most challenged communities in the United States. Even as our resources dwindle, donors downsize, and our financial future grows darker, we continue to serve our neighbors who have been hard hit by a series of calamities in recent months, including COVID-19.

More than ever, we have recognized that our country and communities rely on us to partner and collaborate innovatively, compassionately, and effectively to address the immediate and long-term challenges that this pandemic has brought us. We are committed to working with one another and with you as our country's leaders, to find bring more resources and capital to minority-led faith-based and non-profit organizations who are actively serving their communities.

Since March 2020, we have worked alongside partnering churches and non-profit organizations to support grass-roots organizations serving children, youth, and families in need. Local communities are relying on faith-based and non-profit organizations to help them through this trying time but these organizations are dealing with new demands, a constrained capacity, and limited to no access to the capital markets at the same time. These organizations are being tested in ways never imagined and under unthinkable circumstances. With our own limited resources, we have focused on helping organizations access existing resources to survive this current crisis as well as considering long-term strategies of restoration. While studies indicate that approximately 1% of PPP funds went to religious organizations, based on our first-hand knowledge of those serving in communities of color, the percentage is far less for small and minority-led non-profit and faith-based organizations. We believe this is for two key reasons:

- First of all, the technical assistance that was provided to support access to PPP funds was delivered through organizations that have no history, knowledge, expertise, or focus on faith-based and non-profit organizations, particularly those minority led organizations with less than 25 employees.
- Secondly, the PPP was structured to provide payroll support but these organizations have historically had significant reliance on volunteers (who are now limited due to their own financial crisis as well as the need to quarantine) resulting in limited historical payroll filings and therefore limited resources available to support the level of effort these organizations continue to exert.

We agree with the Treasury Secretary in his most recent June 10th Senate Small Business hearing when he stated that the federal government would need a far more targeted approach in deploying future small business relief, however, we believe that community-serving non-profit and faith-based organizations must also be targeted beneficiaries of this relief. For this reason, we have joined together to ask the Committee to not forget our small faith-based and non-profit organizations in any support and relief that Congress authorizes.

We urge this committee to take seriously the need for technical assistance for community-serving faith-based and nonprofit organizations in our community. We applaud this committee's commitment to the minority community with funding of $10M through the United States Department of Commerce Minority Business Development Agency. However, to effectively serve the faith-based and non-profit communities, technical assistance cannot flow through the usual small business organizations but must be through an entity or national collaboration of entities that has a proven history and knowledge of these sectors, especially with the faith community serving in communities of color, and has the capacity to effectively manage the deployment of federal resources ethically and efficiently.. We believe this funding will assist our nation's most underserved populations who were overlooked within the federal relief programs.

We see the funds as just the beginning of helping to not just rebuild businesses and organizations affected but helping to create a new future. The world we live in today and the world we are moving into is different than the one we have seen in the past. Without warning, our organizations are struggling to change their program model, develop new strategies, and mobilize new technology for the new normal that is not yet clear. What is clear is that the neediest among us, and those faith-based and non-profit organizations that serve them, cannot be forgotten. This collective work of faith-based organizations and non-profits is far-reaching. These are the people with an intimate local knowledge of their community and advocate on behalf of the people they serve. These marginalized and overlooked communities are the people whose voices would otherwise go unheard if not for these faith-based and non-profit organizations. .

Together, we appreciate the attention this committee has given to our statement. As a community we stand by you as the leaders of our country and we believe that together, we can **Help Everyone Access Resources to Thrive.**

Thank you for your consideration.

Cosigners listed on the following pages

David Benavides
Executive Director/CEO
KidWorks Community Development Corporation

Darren Bennett
Campus Pastor
Calvary Chapel North

Alvin Bibbs
Community & Faith Engagement Leader
Together Chicago

Ricky Brown
Senior Pastor
New Creation Church

Kerlin Calderon
Senior Pastor
Grace Tabernacle Church NYC

Rev. Ilean R. Caraballo
President
AMEFC – Asocacion Ministros Evangelicos Florida Central

Jesse Carbo
Pastor & Executive Director of City to City Miami
Crossbridge Church

Michael Carrion
Senior Pastor
Promised Land Covenant Church
Rev. Luis Delgado
Director
ASSPEN South East Region Iglesia M.I

Mr. Jeremy Del Río, Esq
Executive Director
Thrive Collective

Bernard Emerson
Lead Pastor
Tapestry Church

Dave Ferguson
Lead Pastor
Community Christian Church

Rev. Saturnino "Nino" Gonzalez
Superintendent
Florida Multicultural District AG

Robert Guerrero
Vice President Catalyst
Redeemer City to City

Rev. Maricela Hernandez
Executive Officer
Texas Gulf Hispanic District of the Assemblies of God

Jennifer Hicks
Executive Director
Neighborhood Homework House

Reverend Carl Johnson
Pastor and CEO
Faith City Church/Storehouse Grocer LLC

Rev. Pablo Lavoy
Bishop
IDDPMI Southeast Region

Jimmy Lee
Lead Facilitator
Invest America

Tommy Lee
President
Create Possible

Robert Lopez
CEO/Pastor
PassionLA

Ramon Lorenzo
President
Red Ministerial USA

Reverend Carlos L. Malavé
Executive Director
Christian Churches Together

Reverend Angel Marcial
President
FRACEE – Fraternidad Concilios Entidades Evangelicas

Dina Martinez
Team Leader
Non-profit Organizations in LA

Rev. Margarita Martinez
President
Ayuda al Necesitado Food Cooperative

Rev. Ricardo Martinez
Pastor and President of Concilio La Voz de Dios
Concilio La Voz de Dios

Rev. Michael A. Mata
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Daniel Meyer
Senior Pastor

Rev. Dr. Sergio Navarrete
Superintendent
Southern Pacific District of the Assemblies of God

Rev. Ruben Ortiz
Latino Field Coordinator
Cooperative Baptist Fellowship
Daytona Beach, FL

Dennae Pierre
Executive Director
Surge Network

Brannin Pitre
Senior Pastor
Grace Pasadena Church

Rev. Dr. Liz Rios
President
Passion2Plant

Anthony Rivera, Jr.
Lead Pastor

CitiChurch

Rev. J.R. Rodriguez
Superintendent
Texas Louisiana District of the Assemblies of God

Mark Rodriguez
Lead Pastor
God Loves Miami, Inc.

David Rosa
Lead Pastor
Cruciform Church

Mrs. Yvonne Sawyer
CEO
Hope for Miami

David Sung
Lead Pastor
Covenant Church of the Heights

Rev. Samuel Trevino
President
McAllen Church Network

Engine

August 6, 2020

Dear Members of the Senate Committee on Small Business and Entrepreneurship,

Engine is a non-profit technology policy, research, and advocacy organization that bridges the gap between policymakers and startups. Engine works with government and a community of thousands of high-technology, growth-oriented startups across the nation to support the development of technology entrepreneurship through economic research, policy analysis, and advocacy on local and national issues. As such, we appreciate your work on capital access issues for minority-owned small businesses—including many startups—amidst the COVID-19 pandemic, and commend your work thus far to get capital into the hands of businesses that need it the most. But there is more to be done, specifically to support American startups—particularly minority-led startups—if they are to weather the pandemic.

Small businesses and startups are the lifeblood of the American economy and are huge drivers of U.S. job growth.[1] While startup founders routinely face hurdles accessing the capital they need to grow, women- or minority-founded companies are expected to face even higher funding hurdles than usual during these uncertain economic times.[2] Minority-owned businesses routinely report higher loan denials, pay higher interest rates, and are more likely to be denied credit than white-owned businesses.[3] There are more than 4 million minority-owned businesses in the U.S., and they generate more than $400 billion in annual revenue.[4] But they are struggling amidst the COVID-19 pandemic. During the period from February to April, "there was a 41% decline in Black-owned businesses."[5] While the CARES Act provided some relief to many small businesses and startups, particularly through the Paycheck Protection Program, the program's requirements—particularly at its inception—shut some at-risk businesses out of relief. Though Congress intended to prioritize underserved and rural markets, many of the businesses in these demographics were instead left behind.[6] As Congress considers future relief packages, support for minority-owned small businesses and startups should be of particular priority.

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[1] U.S. Small Business Administration Office of Advocacy, 2019 Small Business Profile, available at: https://cdn.advocacy.sba.gov/wp-content/uploads/2019/04/23142719/2019-Small-Business-Profiles-US.pdf.
[2] *See, e.g.*, Eliza Haverstock, *Female Founders Face Funding Hurdles Amid the Pandemic*, PitchBook (May 8, 2020), https://pitchbook.com/news/articles/female-founders-face-funding-hurdles-amid-the-pandemic.
[3] SBA Office of Advocacy, Access to Capital among Young Firms, Minority-owned Firms, Women-owned Firms, and High-tech Firms (April 2013), available at: https://www.sba.gov/sites/default/files/files/rs403tot(2).pdf.
[4] Dan Biewener, How Can the PPP do Better for Minority Businesses, available at: https://fundbox.com/blog/minority-business-ppp/.
[5] Id.
[6] See testimony of Ron Busby Sr., President and CEO of the U.S. Black Chambers, Inc., available at: https://www.sbc.senate.gov/public/index.cfm/hearings?ID=4B7913A8-8F34-451D-BBFC-FA095B822809 and testimony of Karen Kerrigan, President and CEO, SBE Council at a House Financial Services Committee Hearing, available at: https://democrats-financialservices.house.gov/UploadedFiles/HHRG-116-BA13-Wstate-KerriganK-20200709.pdf.

At a recent House Financial Services Committee hearing, Karen Kerrigan noted that at PPP's inception, many small businesses in distressed communities, particularly minority- and women-owned businesses, were unable to receive relief through the program due to limited banking relationships.[7] Similarly, in this hearing, Fabiana Estrada talked about assisting minority business owners that were left out of the process by traditional lenders.[8] This issue also speaks generally to the greater capital access issues these businesses face. Not only do minority-owned businesses have lower loan approval rates controlling for other factors,[9] but when they are approved, they are often subjected to higher interest rates.[10] With respect to the PPP, minority-owned businesses faced challenges in both applying for and obtaining relief. According to a May survey by the Small Business Majority, roughly 12 percent of those who did not apply for a PPP loan were unable to find a bank with whom to apply.[11] Almost 29 percent were concerned they would not be able to get forgiveness, and a further 19 percent were told they did not, or believed they did not, qualify.[12] As Ms. Kerrigan stated at the House Financial Services Committee hearing, while fintech lenders were eventually brought into the program to target very small businesses, more success could have been seen in doing so from the beginning.[13] The same can be said for Community Development Financial Institutions (CDFIs).[14] CDFIs were eventually able to provide greater assistance to struggling minority- and women-owned businesses who might not have been a priority for traditional banks—perhaps because they needed smaller loans, or because these businesses lacked extensive banking relationships. When CDFIs were able to help small businesses, they were particularly adept as PPP lenders.[15] But, Ms. Kerrigan noted that at the point that CDFIs were allocated dedicated resources, many loan seekers had given up on obtaining relief through the PPP.[16] Future relief packages should provide additional dedicated funds for and prioritize lending through Fintech lenders, CDFIs, and Minority Depository Institutions to better serve minority-owned businesses. Prioritizing these institutions as eligible PPP lenders will mean better access to businesses most in need of relief.

Specific requirements of the Paycheck Protection Program proved difficult for startups on the whole—from the threshold required to be directed toward payroll expenses, to the definition

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[7] See testimony of Karen Kerrigan, President and CEO, SBE Council, available at: https://democrats-financialservices.house.gov/UploadedFiles/HHRG-116-BA13-Wstate-KerriganK-20200709.pdf.

[8] See testimony of Fabiana Estrada, Director of Lending Southeast, Accion, available at: https://www.sbc.senate.gov/public/index.cfm/hearings?ID=4B7913A8-8F34-451D-BBFC-FA095B822809.

[9] SBA Office of Advocacy, *supra* note 3.

[10] Jared Weitz, Why Minorities Have So Much Trouble Accessing Small Business Loans (January 22, 2018), available at: https://www.forbes.com/sites/forbesfinancecouncil/2018/01/22/why-minorities-have-so-much-trouble-accessing-small-business-loans/#2668d7af55c4.

[11] Small Business Majority, Small Business Majority Survey: Small business owners worried about PPP loan forgiveness, available at: https://smallbusinessmajority.org/sites/default/files/research-reports/Survey-Small-business-owners-worried-about-PPP-loan-forgiveness.pdf.

[12] Id.

[13] See testimony from Karen Kerrigan President and CEO, SBE Council, available at: https://democrats-financialservices.house.gov/UploadedFiles/HHRG-116-BA13-Wstate-KerriganK-20200709.pdf.

[14] See testimony from Ms. Marla Bilonick, available at: https://www.sbc.senate.gov/public/index.cfm/hearings?ID=4B7913A8-8F34-451D-BBFC-FA095B822809.

[15] See testimony from Karen Kerrigan President and CEO, SBE Council, available at: https://democrats-financialservices.house.gov/UploadedFiles/HHRG-116-BA13-Wstate-KerriganK-20200709.pdf.

[16] Id.

of payroll, to the permitted uses of loan funds, and to uncertainty surrounding the forgiveness process. Many startups and small businesses were unable to apply for relief for fear of not meeting the requirements, rendering them unable to obtain forgiveness. These issues are also important to minority- and women-led startups and small businesses—96 percent of Black-owned businesses can be classified as non-employee.[17] Some rely on 1099 contractors until they are able to afford hiring full-time employees. This means that many startups, including those founded by women and minorities, often have limited payroll costs. Giving startups greater flexibility in spending PPP funds would better equip them to survive the pandemic and serve as job creators as they recover. Being able to use loan funds to offset these other expenses like contractors, would be beneficial. Congress could also consider eliminating the payroll threshold in its entirety, to account for the limited percentage payroll may represent in the operating costs of minority-owned startups.

Policymakers should also consider expanding the scope of forgivable purposes to include other operating expenses, like bookkeeping, marketing costs, or attorney fees. Many startups and minority-owned businesses may not have individuals on payroll to cover these services, unlike larger companies (many of whom would be able to apply PPP funds to pay the paychecks of their employees that perform those services). Being able to use a greater percentage of PPP loan funds to cover those services would help level the playing field for smaller businesses.

In advocating for future pandemic relief, Engine has called on Congress to look outside the PPP and consider federal equity investment in startups through a public-private matching model. Doing so would help the long-term survival of startups in underserved communities. One option, the New Business Preservation Act (S. 3515, H.R. 6403), would create a joint public-private program to invest in new startups. The legislation is designed to incentivize private investment, to promote diversity, and to be self-sustaining because the government's returns will be reinvested in future startups. Moreover, as introduced, the bill focuses on funding women- and minority-founded companies, and companies located outside of major VC sectors. Congress could alternatively consider something like the U.K. Government's 'Future Fund' program,[18] which provides assistance via loans that convert to equity if not repaid.[19] At the hearing, Talibah Bayles also spoke to the need for longer term capital assistance.[20] While short term relief has been necessary immediately to keep businesses afloat, "minority businesses often do not have significant cash reserves or access to traditional capital," therefore, long term, low interest loans may be helpful here. Engine signed onto a letter to Congress reiterating this need generally, so that the next phase of relief enables small businesses to "survive a prolonged period of lower consumer demand, ongoing operational disruption, and continued uncertainty."[21]

Ms. Bayles also referenced the need for equitable access to information and technical assistance—this is important with respect to pandemic-related relief options, and available

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[17] Biewener, *supra* note 4.
[18] *Apply for the coronavirus Future Fund,* Her Majesty's Treasury (April 20, 2020), https://www.gov.uk/guidance/future-fund.
[19] Engine, Startup-Oriented COVID-19 Relief Proposals, available at: https://engine.is/s/Engine-Proposals-for-Future-Phase-4-COVID-Relief-Packages-66ms.pdf.
[20] See testimony of Talibah Bayles, Founder and CEO of TMB Tax and Financial Services, available at: https://www.sbc.senate.gov/public/index.cfm/hearings?ID=4B7913A8-8F34-451D-BBFC-FA095B822809.
[21] See Coalition Letter to Congress on Small Business Relief (June 30, 2020), available at: https://eig.org/wp-content/uploads/2020/06/Industry-Sign-On-Letter-to-Congress-on-Small-Business-Relief.pdf.

financial services generally.[22] In order to support the long-term survival of startups, Congress should consider funding training and education programs for women- and minority-led startups, which would give these entrepreneurs a foundation to build from and knowledge about available resources. This could include technical expertise, information on how to access non-loan funding options such as venture capital, crowdfunding, and grant programs, and guidance on application and forgiveness procedures for PPP loans. Even training and education related to business ownership would be helpful. As Ms. Kerrigan stated at the House Financial Services hearing, many young entrepreneurs are unsure of where to start when it comes to founding and running a business[23]—resources dedicated to supporting young entrepreneurs could go a long way in future job creation. Congress could also consider tax credits for investment in, or grants to, qualified accelerators or incubators—organizations that help entrepreneurs develop business ideas and accelerate the growth of early stage companies.

The need for training and resources is apparent when we speak with startups in the Engine network. We recently spoke with Aaron Saunders, the CEO of the Inclusive Innovation Incubator (In3), an ecosystem builder focused on cultivating and supporting underrepresented entrepreneurs in the nation's capital.[24] In3 has supported more than 1,500 entrepreneurs looking to start new businesses. Mr. Saunders spoke extensively about what policymakers can do to help underrepresented startup founders, stating that the problem isn't simply that startups and minority entrepreneurs need funding, but "without the programming or infrastructure to support them, the impact will not be measurable. For a successful outcome, in addition to providing financial support to entrepreneurs, the funding for economic development should include programming and support to fund the ecosystem builders."[25] He also spoke about the PPP program and its role in assisting Black-owned businesses during the pandemic, stating that while he was able to apply because he had a COO and CFO on staff, many Black-owned businesses did not have the infrastructure in place to know where to begin.[26] He argued that while government funding is important, without providing assistance to organizations in underserved communities to fill out the applications and access the funding, there is no point: "If I don't have the skill, infrastructure, or the expertise to actually get the funding, then who cares how much there is?"[27] According to a survey by the Small Business Majority, more than 80 percent of respondents had some level of concern surrounding the loan forgiveness process.[28] Confusion surrounding how to apply for PPP loans and how to obtain forgiveness should not be a barrier to getting relief into the hands needing it most. Congress should consider simplifying the forgiveness process, including thinking about automatic forgiveness for smaller value loans.

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[22] See testimony of Talibah Bayles, Founder and CEO of TMB Tax and Financial Services, available at: https://www.sbc.senate.gov/public/index.cfm/hearings?ID=4B7913A8-8F34-451D-BBFC-FA095B822809.

[23] See testimony from Karen Kerrigan President and CEO, SBE Council, available at: https://democrats-financialservices.house.gov/UploadedFiles/HHRG-116-BA13-Wstate-KerriganK-20200709.pdf.

[24] Edward Graham, #StartupsEverywhere profile: Aaron Saunders, CEO, Inclusive Innovation Incubator, available at: https://www.engine.is/news/startupseverywhere-dc-in3.

[25] Id.

[26] Id.

[27] Id.

[28] Small Business Majority, Small Business Majority Survey: Small business owners worried about PPP loan forgiveness, available at: https://smallbusinessmajority.org/sites/default/files/research-reports/Survey-Small-business-owners-worried-about-PPP-loan-forgiveness.pdf.

Engine appreciates the opportunity to provide these comments and the Committee's demonstrated interest in capital access for minority-owned small businesses during the pandemic and otherwise. We look forward to the Committee's further efforts on this topic and remain committed to engaging with members on how capital access broadly affects the startup ecosystem.

Respectfully Submitted,

Engine Advocacy
700 Pennsylvania Ave. S.E.
Washington, D.C. 20003

Senate Committee on Small Business and Entrepreneurship Hearing

July 23, 2020

Follow-Up Questions for the Record

Questions for Ms. Fabiana Estrada

Questions from:

Chairman Rubio

In your testimony, you discuss ACCION's success in helping small businesses obtain PPP loans. Congress is considering a second draw of PPP for businesses that have had a significant drop in revenue and need more help.

QUESTION 1

How critical is a second draw of PPP for the businesses that you serve?

Thanks to the PPP, ACCION helped small business owners to navigate the initial period of the pandemic: with state regulations ordering closing down operations the assistance provided with these funds were unique for them to survive, to maintain qualified employees and to cover fixed expenses. A 2nd draw will be fundamental to help rebuilding our communities we need to provide the financial assistance to continue in operations under the new reality we all live in. It will provide cash flow to better operate and to be fully reestablished once the pandemic will be under control. Flexible terms, grace period for re payment should be consider under this 2nd PPP project.

QUESTION 2

How have CDFIs helped to provide technical assistance and paperwork compliance in administering PPP to minority businesses?

We were witnesses of the frustration and misinformation about how to apply for the program. Also, predatory lenders and other unscrupulous individuals took advantage of the desperation of our entrepreneurs to manage operations during the current crisis. CDFI's were there to assist them compiling and understanding about the documentation requested. If the applicant was not ready, we provided the tools to be ready in a short term. The PPP loan amount was another factor to consider since we did as much as we can to be sure the loan will be forgivable and explain under what conditions SBA will consider this loan as a grant. The technical assistance was before, during and after the whole PPP process.

Questions from:

Senator Cantwell

Minority Business Development Agency (MBDA)

Minority entrepreneurs have faced challenges getting access to capital for many years. The COVID pandemic has made it worse. I want to thank Chairman Cardin for his leadership in tackling this problem.

I was pleased to co-sponsor his Minority Business Resiliency Act to make the Minority Business Development Agency (MBDA) permanent and ensure we are doing everything we can to support minority entrepreneurs.

The Tacoma MBDA in my state of Washington has been critical for helping minority-owned small businesses navigate this crisis.

They provide technical assistance and help minority businesses work with SBA to get access to capital and government contracts.

The Tacoma MBDA recently told my office that minority-owned businesses came to them in distress after banks originally refused to work with them to get a Paycheck Protection Program (PPP) Loan.

The MBDA provided technical assistance and connected them to Community Development Financial Institutions (CDFIs).

As a result, most of them were able to eventually get PPP loans.

It shows why we need to strengthen the MBDA to help more minority-owned businesses across the country access capital.

QUESTION 1:

In Washington, the MBDA and SBA have a strong partnership. How could these agencies strengthen their partnership and coordination nationwide?

They are our allies since they empower small business owners to request the technical assistance and access to capital from organizations like us. SBDC, SCORE Chapters are other local nonprofit and community organizations are in addition to SBA and MBDA excellent resources for our entrepreneurs. Building a strong financial eco system needs to be consider not only for now under COVID also for the long run.

QUESTION 2:

What are the barriers to minority entrepreneurs getting the help they need from MBDA and SBA?

Most of the time they are not aware about what they do and how they can assist. SBA is also confused as a direct lender for 7A or 504 programs. SBA and MBDA promote many seminars and they invite CDFI's and local resources. We need to keep this trend to make our communities resilient.

QUESTION 3:

What can be done to ensure more minority entrepreneurs benefit from those agencies' assistance?

As I mentioned above the idea of a strong financial eco system with local organizations involved in the community is key to be sure the small business owner is not alone there is always a friendly hand ready to provide the tools for growth.

Questions from:

Senator Hirono

Native-owned businesses

Ms. Estrada, your organization's website highlights loans to Native American-owned businesses and Alaska Native Corporations (ANCs), but does not specifically mention Native Hawaiian Organizations (NHOs):

QUESTION 1:

Does Accion track lending to Native communities? If so, then does that include NHOs?

Our main program is supported by SBA with the Community Advantage Program. Our micro loan programs are designated to minorities entrepreneurs with flexible criteria. More can be done (definitely yes).

QUESTION 2:

What particular challenges, if any, have you observed with Native-owned businesses, including ANCs and NHOs, accessing capital?

Lack of knowledge about the importance of building credit and understanding cash flow. Lack of trust in traditional lenders.

QUESTION 3:

What recommendations would you make to ensure they have access to capital?

Financial Education and understanding process for lending not only for a loan for business also for affordable housing and other loans they may eventually need since like all consumers they have the same financial appetite to growth steady.

QUESTION 4:

How can we improve lending for these businesses?

Work close with these communities and empower legislation designing flexible programs that may be adapted to their needs (specially Start Ups).

/ inclusiv /

WRITTEN TESTIMONY
HEARING: "CAPITAL ACCESS FOR MINORITY SMALL BUSINESSES: COVID-19 RESOURCES FOR AN EQUITABLE AND SUSTAINABLE RECOVERY"
SMALL BUSINESS AND ENTREPRENEURSHIP COMMITTEE, UNITED STATES SENATE

July 23, 2020

Dear Chairman Rubio and Ranking Member Cardin,

The US is experiencing an unprecedented public health crisis with the COVID-19 pandemic and an economic crisis that will have an even bigger negative impact on low-income communities for months if not years to come.

CDFI and MDI credit unions are critical during this crisis; maintaining branch operations, ensuring people have access to their funds, helping consumers access those funds remotely and safely, providing forbearance on loans and offering emergency relief and assistance to help members in their community. There are 308 CDFI certified CUs serving 12 million consumers with $101B in total loans outstanding, with a business loan portfolio of over $11B. Of these 74 are SBA lenders and 75 are MDIs. These institutions that work directly with individuals, households and businesses are in many cases serving as the sole source of liquidity as well as centers of information and guidance to ensure that communities are accessing the supports intended for them.

Inclusiv is a national network representing over 300 community development credit unions (CDCUs) that serve 12 million people in the low-income communities and communities of color that are most severely impacted by this economic downturn. As the leading national expert for credit unions on community development and financial inclusion in diverse communities, Inclusiv is committed to facilitating the resources necessary to help credit unions serve people who need them now more than ever.

The CARES Act provided for liquidity to get to small businesses and workers through the paycheck protection program and stimulus cash payments. But more is needed to help ensure that communities can restart and rebuild equitably.

- **CDFI Emergency Stimulus Investment in CDFIs:** Inclusiv and its network urge Congress to approve an emergency stimulus appropriation of at least $1 billion to enable CDFIs to maintain operations and continue to inject capital into low and moderate-income communities. At the forefront of addressing the financial and economic ramifications of COVID-19, CDFIs require additional capital to grow and deploy funds for small businesses and households. Enabling

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CDFIs to continue to respond to this crisis is critical to their communities and to their own long-term financial sustainability.

- **Increase SBA Paycheck Protection Program and Direct Targeted Funds through CDFIs, MDIs and Credit Unions:** Inclusiv supports the call for an additional $250 billion in assistance to small businesses, with $125 billion channeled through community-based financial institutions that serve farmers, family, women, minority and veteran-owned small businesses and nonprofits in rural, tribal, suburban and urban communities across our country, and improvements to ensure all eligible small businesses can access this critical funding and are not turned away by banks. Among these improvements, we suggest:
    - **Rapid Enrollment and onboarding of more Credit Unions in SBA e-Tran system**: Large banks with their own pipeline are originating the vast majority of PPP loans. These funds are being prioritized for their own borrowers and customers, which tend to be better capitalized businesses. Despite SBA's efforts to increase the pool of lenders by expanding participation eligibility to all federally insured financial institutions, the certification process has been challenging. Most credit unions currently participating were already SBA lenders (YE2019 data shows only 438 credit unions reporting outstanding loans with SBA guarantees). Those CUs that have been able to get started are originating loans at higher levels than their assets might suggest, punching well above their weight. But they account for a small percentage of the possible pool of credit union lenders that could be originating loans through this program. SBA must accelerate approval and onboarding of all eligible lenders onto the e-Tran platform and provide substantive guidance and support to ensure that loans are properly submitted and businesses receive the guarantees and forgiveness allowed under the program.
    - **Increase efforts to engage unbanked consumers through the stimulus payments**: The IRS has begun the process of distributing stimulus payments. It has never been more important to have a banking account, particularly to ensure stimulus payments come quickly, safely, and free. Millions of consumers still don't have access to a safe and affordable credit union account for managing your money remotely, including to receive wages and government benefits securely through direct deposit and to make payments remotely. This is a unique opportunity for our industry to engage this segment of our communities through targeted outreach and collaboration with community partners and local governments.

Inclusiv and our member credit unions ask that you act now to ensure that the communities being hardest hit by the COVID-19 crisis receive the resources they need in order to weather this period. Community development financial institutions are deeply embedded in the communities they serve and have proven to be efficient and effective at identifying their customers' needs and deploying capital out in the community. By expanding the SBA Paycheck Protection Program and directing targeted funds

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through CDFIs, MDIs and credit unions, making an emergency stimulus investment in CDFIs, and increasing efforts to engage unbanked consumers through the stimulus payments, Congress can build the foundation for affected communities to emerge from this crisis stronger and more resilient than ever before.

Sincerely,

Cathleen A. Mahon,

President & CEO

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NAFCU
National Association of Federally-Insured Credit Unions

July 22, 2020

The Honorable Marco Rubio	The Honorable Ben Cardin
Chairman	Ranking Member
Committee on Small Business & Entrepreneurship	Committee on Small Business & Entrepreneurship
U.S. Senate	U.S. Senate
Washington, D.C. 20510	Washington, D.C. 20510

Re: Tomorrow's Hearing, "Capital Access for Minority Small Businesses: COVID-19 Resources for an Equitable and Sustainable Recovery"

Dear Chairman Rubio and Ranking Member Cardin:

I am writing on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) to share our thoughts ahead of tomorrow's hearing titled, "Capital Access for Minority Small Businesses: COVID-19 Resources for an Equitable and Sustainable Recovery." NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve 120 million consumers with personal and small business financial service products. NAFCU is extremely supportive of the Committee's attention to increasing capital access for minority-owned businesses, and we share your view that the pandemic has exacerbated the challenges these businesses face.

As we have shared with you before, credit unions are proud of their record of diversity and commitment to helping the portions of their communities that are most in need with high-quality financial products and services. According to the National Credit Union Administration (NCUA), there are 526 federally-insured minority depository institution (MDI) credit unions that serve 3.9 million members (as of June 30, 2019). Furthermore, there were approximately 292 Community Development Financial Institution (CDFI)-designated credit unions at the end of 2019, constituting about 27 percent of all certified CDFIs. Ensuring that these institutions have the resources they need to survive and serve their members during these challenging times is critically important for the survival of our minority-owned businesses and the health of our communities. To that end, we support legislative efforts to ensure that CDFIs and MDIs have the resources they need to serve their communities.

The most recent example of the relationship between credit unions and minority-owned businesses is evidenced in the Small Business Administration's (SBA) released loan-level data for rounds one and two of the Paycheck Protection Program (PPP). A NAFCU analysis (shown on the next page) found that of loans where borrower race and gender were reported, credit unions provided nearly double the percentage of loans to Black- and Hispanic-owned businesses than large banks and more than double the percentage of loans to Black- and Hispanic-owned businesses than community banks. This is consistent with credit unions historical practice of providing services to minority-owned businesses.

Lender Class	Avg. Loan Amt. ($000s)	Borrower Race/Ethnicity* (%) Black or African American	Hispanic	Asian	Other Non-White	White	Female Owned* (%)	Veteran* (%)
Large Banks	$122.3	3.1	7.3	14.2	0.8	74.7	19.6	4.9
Community Banks	$101.2	2.2	5.9	10.0	0.5	81.4	23.9	4.5
S&Ls	$97.8	2.2	4.0	4.2	0.3	89.2	27.8	3.3
Credit Unions	$50.2	6.7	12.5	9.0	0.8	71.0	31.0	5.3
Non-Bank Lenders	$51.5	11.5	30.7	12.3	0.5	45.0	23.3	2.4

* Where reported. As a share of total loans, lenders reported borrower race/ethnicity for 11 percent of loans, gender for 22 percent of loans, and veteran status for 15 percent of loans.

As the Committee looks at ways to help minority-owned businesses through the pandemic, NAFCU urges Congress to continue to set aside PPP funds for community financial institutions, as well as consider additional set asides specifically for CDFIs and MDIs in any future rounds of funding. We also urge you to take steps to help those smallest businesses that received PPP loans by supporting bipartisan legislation such as S. 4117, the *Paycheck Protection Small Business Forgiveness Act* which would simplify the forgiveness process for PPP loans under $150,000.

We thank you for your leadership and ongoing efforts to support minority-owned businesses as well as CDFIs and MDIs during these uncertain times. We appreciate the opportunity to share our input and look forward to continuing to work with the Committee on these issues. Should you have any questions or require any additional information, please contact me or Janelle Relfe, NAFCU's Associate Director of Legislative Affairs, at jrelfe@nafcu.org.

Sincerely,

Brad Thaler

Brad Thaler
Vice President of Legislative Affairs

cc: Members of the Committee on Small Business & Entrepreneurship

Statement for the Record

U.S. Senate Committee on Small Business and Entrepreneurship

"Capital Access for Minority Small Businesses: COVID-19 Resources for an Equitable and Sustainable Recovery"

July 23, 2020

We commend Chairman Rubio, Ranking Member Cardin, and the U.S. Senate Committee on Small Business and Entrepreneurship for holding the July 23rd hearing evaluating capital access for minority small businesses during the pandemic.

Entrepreneurship plays an important role in building wealth in families, communities, and economies, but the opportunity to start and grow a business is not equal for white and Black Americans. Black Americans are underrepresented among entrepreneurs, representing 12% of the U.S. labor force but only 9.4% of business owners.[1] They also are less likely than white Americans to launch businesses, and when they do, those businesses tend to have lower revenues and fewer employees.[2]

Black-owned non-employer businesses are less than half as likely to get financing as white-owned firms[3]; as a result, Black entrepreneurs are nearly three times more likely to have business growth and profitability negatively impacted by a lack of financial capital.[4] Given that 70.6% of Black entrepreneurs rely on personal and family savings for financing, lower family wealth for Black families overall drives more of a divide[5] in access to capital. In addition, Black Americans hold higher levels of student debt—inhibiting entrepreneurship by discouraging risk and constraining access to capital.[6]

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[1] M'Balou Camara, Khaing Zaw, Darrick Hamilton, and William Darity Jr., "Entering Entrepreneurship: Racial Disparities in the Pathways into Business Ownership." Duke University, 2019
[2] The Kaufman Foundation, Kauffman Compilation: Research on Race and Entrepreneurship, December 2016
[3] Federal Reserve Bank of New York, 2019 Report on Non Employer Firms: Small Business Credit Survey, August 2019
[4] Howard, Tiffany, "The State of Black Entrepreneurship in America: Evaluating the Relationship Between Immigration and Minority Business Ownership," Congressional Black Caucus Foundation Center for Policy Analysis and Research, April 2019
[5] Ibid
[6] Braga, Breno, "Racial and Ethnic Differences in Family Student Loan Debt, " Urban Institute, July 2016

Access to credit is more expensive for minority-owned firms. Research shows that diverse-owned firms paid 7.8 percent interest on average for loans compared with 6.4 percent for non-minority firms.[7] Black–owned firms report more credit availability challenges or difficulties obtaining funds for expansion than nonminority–owned firms—even among firms with revenues of more than $1M. Further, black–owned firm application rates for new funding are 10 percentage points higher than white–owned firms, but their approval rates are 19 percentage points lower.[8]

The economic fallout from the pandemic has hit Black-owned and Hispanic-owned firms particularly hard, exacerbating these challenges. The number of Black-owned small businesses dropped by a staggering 41% from February to April while the number of Latinx-owned businesses dropped 32%, compared to a 17% drop for white small business owners.[9] This was due in part to industry concentrations that put Black- and Hispanic-owned businesses at higher risk of disruption and loss caused by the pandemic.

The U.S. Chamber of Commerce recently launched our Equality of Opportunity Initiative to develop and advance data-driven business and policy solutions to bridge opportunity gaps and ensure that Black Americans have greater opportunities to succeed—this includes increasing access to capital for minority-owned businesses.[10] Access to capital is critical for small businesses to start, scale and compete in our global economy, and we know that their success catalyzes job creation and promotes the economic health of entire communities across the country.

The business case for equity and increased access to capital for minority-owned firms is clear. If the number of minority-owned enterprises was proportional to their labor force participation, the U.S. would add more than 1.1 million businesses, supporting an estimated nine million additional jobs and adding nearly $300 billion in workers' income.[11] A recent study estimated that by 2050, our country stands to realize an $8 trillion gain in GDP by closing the U.S. racial equity gap.[12]

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[7] Minority Business Development Agency, Executive Summary - Disparities in Capital Access between Minority and Non-Minority Businesses, April, 2017

[8] Federal Reserve Banks of Atlanta, Boston, Chicago, Cleveland, Dallas, Kansas City, Minneapolis, New York, Philadelphia, Richmond, St. Louis, San Francisco, "2020 Report on Non Employer Firms: The Small Business Credit Survey, " 2020

[9] Fairlie, Robert, "The Impact of COVID-19 on Small Business Owners: Evidence of Early-Stage Losses from the April 2020 Current Population Survey." National Bureau of Economic Research, June 2020

[10] U.S. Chamber of Commerce, America's Opportunity Gaps: By the Numbers, Systemic barriers to equality of opportunity for Black Americans and people of color, (June 24, 2020); https://www.uschamber.com/report/america-s-opportunity-gaps-the-numbers

[11] Algernon Austin, "The Color of Entrepreneurship: Why the Racial Gap among Firms Costs the U.S. Billions," Center for Global Policy Solutions, April 2016

[12] Turner, Ani, "The Business Case for Racial Equity," W.K.Kellogg Foundation, 2018

In partnership with the public and private sector, the U.S. Chamber of Commerce is focused on helping minority-owned businesses survive the pandemic and position themselves on a path to economic recovery. We are specifically focused on the following:

- **Weathering the Economic Impact of the Pandemic:** The pandemic is disproportionately impacting minority-owned businesses. The Chamber continues to support policy efforts to streamline access to capital for minority-owned firms like PPP forgiveness for loans under $250,000 and S. 3742, the "Recharge and Empower Local Innovation and Entrepreneurs Fund for Main Street Act (RELIEF for Main Street Act). Additionally, the U.S. Chamber Foundation joined the U.S. Black Chambers, the National Black Chamber of Commerce, the National Business League, Walker's Legacy, and American Express in a new coalition pledging $10M over the next four years to provide grants to organizations that focus specifically on helping Black-owned businesses.
- **Improving Access to Capital:** Lack of access to capital is a significant problem for most entrepreneurs but is especially acute for Black entrepreneurs. Following the model of the successful 2012 JOBS Act, the Chamber supports efforts by Congress to initiate a formal process through the SEC to develop recommendations for changes in existing law and regulations that would improve access to capital for Black-owned businesses.
- **Improving Access to Credit:** A critical component impacting access to capital is credit. The Chamber supports efforts to increase access to credit for minority-owned businesses.
- **Increasing Entrepreneurship Opportunities:** Through our Next-Gen program, the U.S. Chamber is working with Historically Black Colleges and Universities and Minority Serving Institutions to expose students to new career opportunities, promote entrepreneurship, and advance diversity at all levels of business.
- **Increasing Minority-Business Lending**: The Chamber supports strengthening financial institutions that provide support to underserved and low-income communities like Community Development Financial Institutions (CDFI), Minority Development Institutions, and others. For example, we support the inclusion of $1 billion for the CDFI fund in the HERO's Act.
- **Promoting a Data-Driven Approach**: In partnership with MetLife, the Chamber produces a monthly small business index to track the impact of the pandemic on firms—including minority-owned small businesses.

This contributes to our data-driven approach. We also support efforts by the Consumer Financial Protection Bureau to implement Section 1071 which amends the Equal Credit Opportunity Act to require that financial institutions collect and report information concerning credit applications made by women- or minority owned businesses and by small businesses.

- **Supporting the Efforts of Minority Business Development Agency:** The U.S. Department of Commerce's Minority Business Development Agency (MBDA) is the only agency in the federal government whose sole purpose is to support, expand, and create opportunities for minority-owned enterprises. The Chamber supports Congress providing additional support to the MBDA and incentivizing a private sector partnership with the MBDA to expand programs to assist minority owned businesses.
- **Increasing Supply Chain Diversity**: Larger businesses can help support Black entrepreneurship by focusing on diversity in their supply chains. Utilizing a data-driven approach, the Chamber supports a private sector effort to establish best practices and resources to increase the participation of minority owned enterprises in corporate supply chains.
- **Supporting Black-Owned Businesses:** Many Black-owned businesses are small businesses. Local communities can help support these entrepreneurs by shopping local, and local business communities can help by identifying and promoting local, Black-owned businesses.
- **Advocating for Diversity and Inclusion:** The U.S. Chamber advocates for policies that advance diversity, equality and inclusion in our economy, including corporate board diversity, prohibiting discrimination based on sexual orientation or gender identity, and more.

All Americans should have equal opportunity to earn their success, rise on their merit, and live their own American Dream. Unfortunately, that is not the case today. The U.S. Chamber of Commerce looks forward to working with the Senate Committee on Small Business and Entrepreneurship to strengthen and promote the equality of opportunity for minority-owned businesses.