

SUPPORTING SMALL AND MINORITY-OWNED BUSINESSES THROUGH THE PANDEMIC

VIRTUAL HEARING

BEFORE THE
SUBCOMMITTEE ON NATIONAL SECURITY,
INTERNATIONAL DEVELOPMENT
AND MONETARY POLICY
OF THE
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U.S. HOUSE OF REPRESENTATIVES
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SUPPORTING SMALL AND MINORITY-OWNED BUSINESSES THROUGH THE PANDEMIC

Thursday, February 4, 2021

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON NATIONAL SECURITY,
INTERNATIONAL DEVELOPMENT
AND MONETARY POLICY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 3:06 p.m., via Webex, Hon. Jim A. Himes [chairman of the subcommittee] presiding.

Members present: Representatives Himes, San Nicolas, Torres, Lynch, Auchincloss; Hill, Zeldin, Williams of Texas, Emmer, Davidson, and Taylor.

Ex officio present: Representative Waters.

Also present: Representatives Green and Huizenga,

Chairman HIMES. The Subcommittee on National Security, International Development and Monetary Policy will come to order. Without objection, the Chair is authorized to declare a recess of the subcommittee at any time. Also, without objection, members of the full Financial Services Committee, who are not members of this subcommittee, are authorized to participate in today's hearing. If you are participating today, please keep your camera on, and if you choose to attend a different remote proceeding, please turn your camera off.

Members are also reminded that they are responsible for muting and unmuting themselves, and to mute themselves after they are finished speaking. Consistent with the regulations related to remote proceedings, staff will only mute Members and witnesses as appropriate, when not being recognized by the Chair, to avoid inadvertent background noise. Members are further reminded that all House rules relating to order and decorum apply to this remote hearing.

Before I kick us off, I want to just spend a couple of minutes, since this is the maiden voyage of the National Security, International Development and Monetary Policy Subcommittee. I am just delighted to be joined by French Hill of Arkansas as the ranking member. I consider French a good friend of many years, and there are really few Members for whom I have so much respect in this institution. If you want an example of French's commitment to technical policy issues, look no further than his Op-Ed in yesterday's Wall Street Journal on IMF Special Drawing Rights. I recommend you do that right before bedtime.

As chairman, I have two objectives for this subcommittee. First, our subcommittee needs to make progress on, and conduct hard-hitting oversight on a wide variety of issues, from the financing of violent extremists, to the economic implications of a massive Federal Reserve balance sheet. We have a lot of work to do. I invite every single member of this subcommittee to talk to me or to French about areas that you would like to pursue.

Second, and just as importantly, I would really like to do this right. I would like to do this in a way that honors the trust that lots of our constituents have put in us and which begins to rebuild this institution. As I look at the subcommittee membership, with the exception of Mr. Lynch, I think I have been in the House longer than anyone else on the subcommittee, for 12 years now. So, I am not one bit naive about the political pressures that we all face, and frankly, I have never seen it so bad.

As we sit here, many of us are full of anger, suspicion, and anxiety. Some of us want revenge for this or that. All of us went through something on January 6th that we never imagined would ever happen. So, my second objective for this subcommittee is to show the Congress and the world that even in these days of white-hot emotion, we can make progress, model more decent politics, and maybe even build some bridges.

I have been here for a while, so let me offer just a little bit of specific guidance. First, let us be forward-looking. The Presidency of Donald Trump will be scrutinized by historians for generations to come. We all have views. Hillary Clinton's emails and Paul Manafort's friends are catnip for all of us, but let us keep that stuff out of a room that is about improving national security and conducting oversight.

Second, let us go after each others' ideas in a way that improves them. Let us stay away from motives from personalities and from hidden agendas. I will be far more grateful to the Republican who changes my thinking with a good argument and good facts than I will be to a Democrat who simply agrees with me. If you think my ideas are bad, change my mind with facts and a good argument.

Third, and finally, let us respect each other. Whatever else we think of each other, a whole lot of people sent each and every one of us here to represent them. We have to respect that. Like I said, I have been here for a long time. I understand why Democrats need to repeat the word, "QAnon," and why Republicans need to call me a, "radical socialist." Just please, do that in a different room. The chairman does not have immense power, but he has discretion in determining when language becomes unbecoming, and I really would like to model something better than what we have been showing these last couple of weeks. I think we have a real chance to lead here, to show that there is a better way, and so, let us do it.

Today's hearing is entitled, "Supporting Small and Minority-Owned Businesses Through the Pandemic." I now recognize myself for 4 minutes to give an opening statement.

Welcome to the first hearing of the Subcommittee on National Security, International Development and Monetary Policy. I am eager to delve into the many subject matters under the jurisdiction of the subcommittee. Our purview is broad and cuts across a range

of issues important to the American people, whether it be keeping terrorists from accessing our financial system, ensuring that we are leading on the global stage through international institutions, or overseeing the Federal Reserve's efforts to rescue the economy, these issues have never been so important.

I look forward to working with all of you on those issues. As I said before, I am also just delighted to be joined by Ranking Member French Hill. I want to, as I said before, continue the history of bipartisan work on the subcommittee.

The issue before us affects all Americans, and I am confident that this subcommittee will serve as a model for what can be achieved. Today's hearing focuses on an issue that I can say for certain every member on this subcommittee has dedicated a tremendous amount of time to since the onset of the pandemic: Support for small and minority-owned businesses. I see the challenges every single day in my very, very diverse district. In March, as the sheer scale of the economic challenges before us became clear, Congress acted to pass the largest stimulus bill ever, the Coronavirus Aid, Relief, and Economic Security (CARES) Act, to deliver the desperately-needed aid across the economy.

In December, we again came together to continue that support. However, as the stimulus made its way into the economy, many of us became concerned about the undeniable fact that not all communities were equal beneficiaries of that aid. In April, I co-authored an Op-Ed with Connecticut's Treasurer Sean Wooden, arguing that more needed to be done to ensure that aid was making its way to minority-owned businesses as well as businesses in traditionally underserved and underbanked communities. And without objection, I will enter that Op-Ed into the record.

In this hearing, the subcommittee will explore the successes and the failures of the systems we set up to help small and minority-owned businesses weather this pandemic. It is vital that we understand why aid to minority-owned businesses was delayed, while other well-connected businesses that were hurting the least made their way to the front of the line. Our efforts today are not focused on laying blame, but on helping lay the groundwork for how we can do better going forward, because the issues we are addressing here today will not simply disappear after we defeat this virus.

I would like to profoundly thank our witnesses for being here. I am sorry we could not welcome you more formally and in person, but we are going to really enjoy your testimony as we wrestle with these questions. At this point, I would like to yield to Ranking Member French Hill.

And, Ranking Member Hill, since I took more than my fair share of time up-front, you will get the same discretion.

[laughter]

Mr. HILL. I thank my friend from Connecticut, and I want to say what a treat it is to refer to Jim Himes as, "chairman" of the subcommittee. Not that those of us on the Republican side of the aisle do not want the word, "chairman" as a prefix to our names, but we look forward to working with you and we appreciate the attitude which you have and the critical support you delivered as a member of the Intelligence Committee, and a long-time supporter of America's national security. Representative Steve Lynch will certainly

report that this subcommittee was transformed from a task force into a subcommittee the year that Mr. Emmer, Mr. Zeldin, and I came into the House. And I, actually for all 6 years, have been very impressed with the original Terrorism Task Force, that is now the National Security Subcommittee, and, as you pointed out, the bipartisan nature of the subcommittee.

And I want to thank the Republicans in the last Congress for being creative and collaborative with their Democratic colleagues. We got a number of good bills out of this subcommittee, through the Full Committee, and across the House Floor, that countered China's debt trap, lack of transparency, and their accretion status in the Third World. It is very important to a lot of Members on both sides of the aisle to shine a light on that, as well as holding them accountable in a number of ways. So, I thank all of my colleagues on both sides of the aisle for their work on this subcommittee.

I also would say that Mr. Himes and I share this interest in international affairs, and we know that this subcommittee is a major partner in America's strategy, both in sanctions and identifying ways to cut off terrorism finance, and collaboration on combating transnational crime around the world. And that issue has not gone away, even though the subcommittee, in the last Congress, was more focused in the international finance arena and in China's emerging rival status with the United States.

So again, let me echo what the chairman said, which is to encourage Members on both sides of the aisle to visit with me on the best ideas you have for both hearings and for legislative priorities.

Today, we will be discussing the State Small Business Credit Initiative (SSBCI), which would reintroduce a program that was created back in 2010 after the financial crisis. It is aimed at providing additional funding to assist small businesses. It seems to me that this is a similar hearing to the one this subcommittee held last summer on H.R. 6918, the Paycheck Recovery Act, that would require the U.S. Treasury to provide grants to small businesses.

As I mentioned last summer, and it bears repeating now, these types of programs, in my view, should not be moving through this subcommittee. Instead, the House Small Business Committee should be analyzing the state of all aspects of financing for small businesses, including the State Small Business Credit Initiative.

As a long-time supporter of small business, and as someone who previously spent a part of 4 decades starting businesses, I am not denying the importance of ensuring that small businesses remain operational. I am simply stating that our subcommittee is better suited to discussing the issues squarely in our jurisdiction, such as items just mentioned by Chairman Himes and myself: threats from China; the annual oversight of the Committee on Foreign Investment in the United States (CFIUS), which we were supposed to do, and even in the last Congress, whenever accomplished, it, and obviously, the importance of monetary policy oversight, just to name a few. Instead, we're using our very limited hearing time to discuss this program.

As of today, the Federal Government has authorized nearly \$3.8 trillion in COVID-19 relief. Of that, about a trillion dollars is aimed at business relief. Specifically, the Paycheck Protection Program

(PPP), the largest of the Federal small business programs, has allocated \$650 billion, \$100 billion of which is still available, including for first-time users and second-chance PPP users.

I was reviewing the State Small Business Credit Program that was set up during the Obama Administration. It was about \$1.5 billion, and not all of the funds ended up being allocated over the years of the program. It had very limited oversight and did not seem to achieve its proposed goals, based on looking at the Government Accountability Office's (GAO's) summary of this program.

In my home State of Arkansas, I contacted the Arkansas Development Finance Authority, which oversaw this program. I spoke to the individuals who were responsible for implementing it, and was told, "It was not a pleasant experience." And as they noted to me, it did not save or create a single job during the term of them attempting to use it in my home State.

As many of us know, the success of the PPP program from last year's CARES Act had kinks and faults, as does any start-up program that the government has. Something was created, and immediately, in 2 weeks, it began extending loans to small businesses. However, over the last 10 months, many of those flaws have been corrected and businesses are receiving the benefits of the Paycheck Protection Program.

So another thing I am very cautious about today, as we start this hearing, is trying to initiate another program with a start-up phase, and changes, and notices of rulemaking, and frequently asked questions that would potentially complicate things, and delay our small businesses' further access to funds, particularly when we have so much at stake, now that we have advanced in the Economic Injury Disaster Loans (EIDL) in the Paycheck Protection program, two big, well-funded successful programs as a part of the CARES Act, that are in the jurisdiction of the Small Business Committee.

And with that, Mr. Chairman, I yield back, and I look forward to the discussion today.

Chairman HIMES. Thank you, Mr. Hill.

The Chair now recognizes the Chair of the Full Committee, the gentlewoman from California, Chairwoman Waters, for one minute.

Chairwoman WATERS. Thank you, Chairman Himes. I wanted to be here to congratulate you on hosting your first subcommittee hearing this Congress, and on such an important and urgent topic. Small and minority-owned businesses are the heart of our economy. Unfortunately, the COVID-19 pandemic has caused heavy financial and public-health pressures upon them, so reviving programs like the State Small Business Credit Initiative, which provides specific programs for the hardest-hit businesses like restaurants, could provide targeted relief. This hearing must also focus our attention on minority-owned businesses, whose historical challenges with accessing capital and assistance programs have been exacerbated by this pandemic. Thank you for the minute. I yield back the balance of my time.

Chairman HIMES. Thank you, Chairwoman Waters.

Chairwoman WATERS. You are welcome.

Chairman HIMES. Today, we welcome the testimony of our distinguished witnesses. In order, Nneka Brown-Masse, founder and

CEO of Innovative Supplies Worldwide, Inc., testifying on behalf of the Main Street Alliance; Gary Cunningham, president and CEO of Prosperity Now; Cliff Kellogg, executive director of the C-PACE Alliance; Everett Sands, CEO of Lendistry; and Holly Wade, executive director of the Research Center at the National Federation of Independent Business (NFIB).

Witnesses are reminded that your oral testimony will be limited to 5 minutes. You should be able to see a timer on your screen that will indicate how much time you have left, and a chime will go off at the end of your time. I would ask that you be mindful of the timer, and quickly wrap up your testimony if you hear the chime, so that we can be respectful of both the witnesses' and the committee members' time. And without objection, your written statements will be made a part of the record.

Ms. Brown-Massey, you are now recognized for 5 minutes to give an oral presentation of your testimony.

STATEMENT OF NNEKA BROWN-MASSEY, FOUNDER AND CEO, INNOVATIVE SUPPLIES WORLDWIDE, INC., ON BEHALF OF MAIN STREET ALLIANCE (MSA)

Ms. BROWN-MASSEY. Chairman Himes, Ranking Member Hill, and members of the subcommittee, thank you for the opportunity to testify today on the need to better support minority-owned and smaller businesses like mine. I am honored and humbled to speak before your esteemed panel and to be alongside my distinguished fellow witnesses. And more importantly, thank you for putting this hearing topic front and center at the start of the 117th Congress, and demonstrating your strong commitment to helping the small business community.

My name is Nneka Brown-Massey, and I am the founder and CEO of Innovative Supplies Worldwide, a school supplies design company based in Tulsa, Oklahoma. I am also speaking today as a member of the Main Street Alliance, a national network of more than 30,000 small business owners who, like me, are eager to share their perspectives on critical public policy issues, especially as we try to find a way out of this once-in-a-lifetime pandemic.

In July of 2016, less than 2 months after finishing my 9-year career as a human resources specialist in the United States Army, I launched Innovative Supplies Worldwide, a stationery manufacturing company. In the first 24 hours of my e-commerce launch, my brand-new business had sold more than 8,000 stationery notebooks globally. I received numerous awards and was accepted into entrepreneurship programs. The future could not have looked better or brighter for my start-up company.

Then, COVID-19 hit us all last spring, and in my case, caused consumers to shift to online classes. With the transition to remote and digital learning, demand for my physical product dipped and my sales dropped more than 60 percent. When relief programs opened last April following the passage of the CARES Act, I immediately applied for the Economic Injury Disaster Loan (EIDL) advance grant. However, after months of radio silence, I was finally told in June by a Small Business Administration (SBA) representative that I had been denied for vague credit reasons. I was forced to establish a new relationship with a new bank when I tried to

apply for the PPP, because the bank I previously worked with closed their only branch in my town, only to be told by the new bank once I had opened my account, that they would not accept new PPP applications at the time.

To compound matters, I am a service-disabled veteran with concussion complications from airborne missions with the 82nd Airborne Division. The injuries I sustained have impacted my ability to manage and process large amounts of paperwork without disability accommodations or support. The extensive and complicated loan application process required to access credit and capital became overwhelming for me.

As profits dissipated and capital dried up for my struggling business, I resorted to using disability benefits from the Department of Veterans Affairs for my traumatic brain injuries and PTSD. It was not too long before my car was repossessed by Fifth Third Bank. With what little faith I had left, I applied for and was accepted into the Tulsa Remote Program, which pays remote workers \$10,000 to move to Tulsa, Oklahoma, for a year. However, just to pay for the move, I had to use my tax refund and my stimulus check.

What my experience underscores are the very real barriers that exist when it comes to accessing capital and credit. As a person of color, living in a rural area, who was not well-connected to the banking industry, I am here today not just to share my story, but to advocate for other small business owners who could just as easily be sitting on this panel. What would have helped me the most, and could still help me now, is a flexible, responsive, direct grants program. Even just a \$5,000 or \$10,000 grant could change the course of my business and my life.

In closing, I am grateful to appear before this committee today. Despite experiencing the highest of highs and the lowest of lows, at the end of the day, I am an entrepreneur trying my hardest and doing my best to succeed. I have proudly and dutifully served my country, sought the same opportunities that others have been afforded, and done whatever was necessary to achieve financial freedom, including packing my bags, moving to a foreign place, and securing my daughter's well-being by making the incredibly painful decision to send her to be with her father in another State rather than force her to share the same sacrifices I am making.

Despite the setbacks I have been dealt, I look forward to resuming the business mentorship I was providing to my employees, many of whom are at-risk youth, training them on inventory software, social media marketing, resume building, and other skill sets. Despite everything I have been through, I still believe in myself and the potential of future entrepreneurs.

I hope that you and your colleagues in Congress will make the most of this uniquely challenging yet historical moment in time to learn from the past and rethink entrepreneurship in this country. There are a number of lessons from 2020 and the uneven implementation of COVID relief programs for small businesses. My experience is one data point that could be built into a more intentional and systematic effort to collect quality disaggregated data about minority-owned small businesses.

There should be a thorough examination of SBA lending, technical assistance, and other programs to assess their effectiveness

for supporting very small businesses. Consumer protections should be expanded to small business borrowers—

Chairman HIMES. Ms. Brown-Massey? Your time has expired.

Ms. BROWN-MASSEY. Thank you.

[The prepared statement of Ms. Brown-Massey can be found on page 32 of the appendix.]

Chairman HIMES. We will have an opportunity to finish up during the period of questioning. But thank you for your testimony, Ms. Brown-Massey.

Mr. Cunningham, you are now recognized for 5 minutes to give an oral presentation of your testimony.

**STATEMENT OF GARY L. CUNNINGHAM, PRESIDENT AND CEO,
PROSPERITY NOW**

Mr. CUNNINGHAM. Chairman Himes, Ranking Member Hill, Chairwoman Waters, and members of the subcommittee, thank you for inviting me here today. It is such an honor. I really appreciate it.

My name is Gary Cunningham. I am the president and CEO of Prosperity Now, a national nonprofit that creates, identifies, tests, and scales new and existing solutions that address the root causes of the racial economic injustice in America. I came to Prosperity Now after serving as the president and CEO of a Community Development Financial Institution (CDFI) and a Minority Business Development Agency (MBDA) in Minnesota. Therefore, I have had experience working hands-on to help entrepreneurs of color succeed.

I would like to start today by just setting the stage. According to the data from the U.S. Senate Committee on Small Business and Entrepreneurship, over the last 10 years, minority businesses accounted for more than 50 percent of all new business starts in the United States and created more than 4.7 million jobs. There are more than 4 million minority-owned companies in the United States with annual sales of close to \$7 billion. That is a sizable footprint. Ensuring their financial health as employers and economic contributors, therefore, is critical.

It is critical that we develop specific approaches to help minority businesses grow and scale. This will require targeted programs designed to serve those who have historically been left out.

For instance, the Paycheck Protection Program, a universal program with outstanding goals, did not reach all businesses equally. Many minority business owners were left out of the process because the universal program was not targeted to their specific needs. For example, many minority-owned businesses do not have relationships with commercial banks and other mainstream financial institutions. We are losing economic productivity and trillions of dollars in GDP when we do not fortify and support for a strong ecosystem of minority business enterprises.

In fact, Black-owned businesses were the fastest-growing business segment in our economy before COVID-19 hit. Between February and May of last year, however, a whopping 41 percent of Black-owned businesses were shuttered. The impact of COVID on minority businesses is dire and threatens to undo the growth we have seen in the last decade.

I must be clear: I am not here to argue for handouts. I am here to argue that targeted, strategic investments to minority businesses will yield significant returns in the form of increased home ownership, jobs, and tax revenue. From my experience in working with minority entrepreneurs, access to technical assistance is the secret sauce of success. Trusted guidance in the form of technical assistance is needed to grow and scale these businesses. Many need investments in infrastructures, simple things like bookkeeping and accounting support, or help filling out a loan application. The current system with MBDA and SBA is needed, but we need more. We need to increase the level of technical support and assistance and capital going to minority businesses.

Despite all of these barriers, entrepreneurs of color are making a difference in this country. They are at the forefront of closing the racial wealth gap. We are facing a moment of true reckoning. There is so much at stake at this moment. Giving minority businesses the tools to survive can result in stronger employment and economic outcomes, a healthier trajectory for communities across the country, and a chance to truly close the growing racial wealth gap. Closing this gap, this racial wealth gap, is not just a moral argument. It is vital to establishing a sound economic future for this country, and it could increase the GDP by \$1 trillion to \$1.5 trillion over the next decade.

Thank you for giving me the opportunity to speak today. I look forward to your questions. Thank you, Mr. Chairman.

[The prepared statement of Mr. Cunningham can be found on page 38 of the appendix.]

Chairman HIMES. Thank you, Mr. Cunningham.

Mr. Kellogg, you are now recognized for 5 minutes to give an oral presentation of your testimony.

**STATEMENT OF CLIFTON G. KELLOGG, EXECUTIVE DIRECTOR,
C-PACE ALLIANCE**

Mr. KELLOGG. Thank you, Chairman Himes.

Good afternoon. My name is Cliff Kellogg. I commend the subcommittee for holding a hearing on this important topic. I have worked on these issues in many professional capacities during my career from South Shore Bank to City First Bank in Washington, D.C. However, I believe the subcommittee invited my testimony today due to my experience as the Director of the State Small Business Credit Initiative (SSBCI) during the Obama-Biden Administration.

My testimony is in two parts: first, I will highlight some of the most significant outcomes of SSBCI; and second, I will offer a few ideas on how a reauthorized SSBCI could extend its impact to create even more benefit for minority-owned businesses and disadvantaged communities.

In 2010, lawmakers designed SSBCI with one overriding goal: To stimulate more private sector lending and investing. Then, as now, dire economic conditions made lenders and investors extremely cautious. Just yesterday, the Federal Reserve Banks released their Small Business Credit Survey showing that only 13 percent of African-American-owned firms received the full amount of financing

they sought, while their White-owned firm peers met their financing needs more than 3 times as often.

SSBCI's strategy is simple: Provide States with funds to share in the risk of making loans and investments. SSBCI required at least one dollar of private capital at risk for every Federal dollar, with the goal of achieving ten-to-one leverage over the life of the program.

The specific outcomes were as follows. In 2010, SSBCI awarded \$1.5 billion to programs in all 50 States, Washington, D.C., and the Territories. The result was over 21,000 new loans and investments exceeding \$10 billion. On average, businesses supported by SSBCI employed 11 people, though half of the firms employed 3 people or less. Clearly, the program reached small firms.

Forty-three percent of the loans or investments were located in low- or moderate-income communities, and 41 percent went to women-owned or minority-owned businesses. Again, it's a good sign that SSBCI reached underserved communities.

So, what makes SSBCI distinct? First, SSBCI gave States the flexibility to design their program to suit local conditions. States could fund startups and expansions, manufacturing loans, and microloans. Some States chose to provide additional collateral. Other States funded reserve accounts for a portfolio of loans. States could operate their program directly or they could hire a contractor. Because local conditions varied from State to State, flexibility in design made SSBCI successful.

Second, SSBCI enabled lenders to make larger loans or make loans with more favorable terms than they would have made otherwise. SSBCI shared in the risk, but the private sector always had the greatest skin in the game.

SSBCI demonstrated that a well-run program reaches a vast range of small businesses, including underserved businesses. Again, the data from version 1 of SSBCI are promising. As the committee considers reauthorizing SSBCI with higher appropriations, it is clear that the States have the capacity to scale up their SSBCI programs, and that alone will be a new benefit, a larger benefit to small businesses. However, more can be done in Version 2 of SSBCI.

First, States should be required to include outreach through CDFIs and Minority Depository Institutions (MDIs). And they should be authorized to collect demographic information on the small businesses they serve.

Second, the committee might consider increasing the amount allocated to States or run a competitive round for States, provided they reach an above-average share of minority-owned firms. The committee might lower the required leverage for these high-performing states.

Third, States should be asked to fund technical assistance to small businesses from their allocations to ensure equitable access and optimum use of these resources.

And finally, the committee might consider allowing multi-State applications, or in the alternative, running a competitive round that awards funds directly to those lenders with a multi-State footprint. A multi-State footprint is especially important for equity investment programs that target underserved communities.

In summary, Version 1 of SSBCI clearly supported small business economic recovery. Reauthorizing a larger SSBCI with enhancements to reach underserved communities would be a valuable part of helping small and minority-owned firms recover from this pandemic. I welcome any questions you may have. Thank you very much.

[The prepared statement of Mr. Kellogg can be found on page 40 of the appendix.]

Chairman HIMES. Thank you, Mr. Kellogg.

Mr. Sands, you are now recognized for 5 minutes to give an oral presentation of your testimony.

STATEMENT OF EVERETT K. SANDS, CEO, LENDISTRY

Mr. SANDS. Good afternoon, Chairman Himes, Ranking Member Hill, and Chairwoman Waters. Thank you for your interest in my perspective on today's topic, which has been an every-day conversation for so many of us over the past 10 months.

My name is Everett K. Sands, and I have more than 20 years of experience in lending. For the past 5 years, as founder and CEO of Lendistry, my focus has been on responsible lending to underserved small businesses, particularly those owned by minorities, women, veterans, and people in rural areas. Lendistry is a minority-led CDFI, Fintech CDFI, a member of the Federal Home Loan Bank of San Francisco, and an SBA lender. We are a signatory on the Small Business Borrowers' Bill of Rights, and we also have a nonprofit technical assistance affiliate. Lendistry rates second nationwide in SBA Community Advantage Loans, which range from \$50,000 to \$250,000.

Community advantage is the only category of SBA loan in which Black and Latinx borrowers combined account for more than 10 percent of annual loan buy-in. More than 73 percent of Lendistry's total outstanding principal loan balance is with minority- and women-owned business borrowers.

Lendistry's focus on small and minority-owned businesses, and our ability to efficiently process high volumes of applications has enabled us to make an impact during this period of urgent need. By the one-year anniversary of COVID lockdowns, Lendistry wealth has deployed nearly one billion dollars to nearly 70,000 small businesses in PPP loans and government grants.

Prior to the pandemic, Lendistry funded millions in SSBCI-backed loans. The program gave us flexibility in our underwriting criteria without sacrificing our credit and risk management. But we could have originated more and made more impact if certain barriers were lowered.

Before discussing specific recommendations for the SSBCI legislation, I would like to discuss four urgent objectives and opportunities for SSBCI that I believe should frame the subcommittee's work in this matter.

First, SSBCI must clearly answer the urgent need of small and minority-owned businesses for capital to help them survive, stabilize, and recover through the pandemic in a way that recognizes the disparate impact of the pandemic on minorities.

Second, SSBCI should be robust enough to act as an engine for inclusive national economic expansion. Whenever there are massive

economic shocks, from Hurricane Katrina to the Great Recession, the driving force of recovery and job creation comes from new business formation. The decisions this subcommittee and your colleagues make concerning the size and the design of the program will make a difference. There is a positive correlation between businesses that can have a significant multiplier effect on the economy and businesses that require capital.

I want to emphasize inclusive expansion. Starting and owning a business is one of the most effective paths for minorities to close a wage and wealth gap, while minority-owned businesses face well-known disparities in accessing capital.

The third guiding objective for the SSBCI is the opportunity to draw more responsible lenders. The program's size and features should make it so attractive to banks and community lenders that they come full-force into the small end of the lending market, providing businesses with a welcome alternative to predatory lending.

Finally, SSBCI should enable CDFIs to have a maximum impact. As we have seen during the PPP, CDFIs made efficient access to capital and to geographies. But in the original program, it was very difficult for the CDFIs to be where the available funds were, leaving small businesses to suffer as a result.

I will now refer you to the section of my written testimony Roman Numeral V, for an expanded discussion on six specific recommendations for the legislation. Here's a summary. Number one, the funding level for SSBCI should be at least \$10 billion. Number two, the portion of authorized funds dedicated to minority-owned businesses should be 60 percent.

Number three, at least 5 percent of authorized funds should be dedicated to technical assistance and certain specific areas of pronounced need. Number four, the legislation should automatically authorize CDFIs, SBA-approved Community Development Corporations, and Business Development Corporations to offer SSBCI-supported loans nationwide.

Number five, for every program supported by SSBCI, loans to minority-owned businesses should qualify for an additional 10 percent of guaranteed coverage. And finally, there should be mechanisms to rescind funds from States that failed to deploy their allocated capital expeditiously, and redeploy those funds to States operating those programs effectively.

To close, a robust reauthorization of SSBCI is necessary to meet the dual imperatives to stabilization and recovery, and new business formation and growth. It is vital that SSBCI is large enough for both needs. I want to thank the Chair and the subcommittee members, and I am happy to see Congressman Lynch on this subcommittee.

[The prepared statement of Mr. Sands can be found on page 42 of the appendix.]

Chairman HIMES. Thank you, Mr. Sands.

And Ms. Wade, you are now recognized for 5 minutes to give an oral presentation of your testimony.

STATEMENT OF HOLLY WADE, EXECUTIVE DIRECTOR, RESEARCH CENTER, NATIONAL FEDERATION OF INDEPENDENT BUSINESS (NFIB)

Ms. WADE. Good afternoon, Chairman Himes, Ranking Member Hill, and distinguished members of this subcommittee. Thank you for the opportunity to testify today on supporting small and minority-owned businesses through the pandemic. NFIB is the leading small business advocacy association, founded in 1943 as a non-profit, nonpartisan organization. NFIB's mission is to promote and protect the rights of its members to own, operate, and grow their business. NFIB proudly represents approximately 300,000 members nationwide from every industry and sector.

The NFIB Research Center promotes greater understanding of small business and the conditions that impact it. The Center produces and disseminates various surveys and studies on small business, focused on areas related to business operations and public policy effects. The Research Center has conducted a series of surveys over the last 10 months assessing the impact the pandemic has had on small business owners. These surveys assess economic conditions in their local area, utilization of Federal and State loan and grant programs as well as tax credits designed to help small business owners survive the crisis.

From the onset of the crisis, small business owners have struggled to adjust to rapidly changing economic conditions. The initial months were particularly damaging to the small business sector as historically large numbers of small businesses closed temporarily and permanently. Those businesses that remained open had to navigate strict business operating restrictions, and dramatic shifts in consumer spending, which often forced owners to use their own limited savings to keep their business open while trying to access funding through the Paycheck Protection Program (PPP).

The PPP has been extremely popular with small business owners, with 76 percent of NFIB members receiving a PPP loan in 2020. However, it is not without significant complications and stress among small business owners who are desperate for immediate financial assistance. The initial challenges for many were immense. Owners were often confused on eligibility, how to calculate loan amounts, and how to spend their loan dollars to maximize forgiveness. NFIB quickly became an educating force for small business owners trying to reach as many as possible to help them navigate the program, but also reach those populations of owners, mostly non-employers, to let them know that they, too, were likely eligible to participate.

We also heard from small business owners struggling to find lenders to accept their PPP application. We know that small banks and community banks have significantly declined in recent years, and that became a clear issue in accessing the PPP program. The initial months were difficult. But as the Paycheck Protection Program evolved, and Congress allocated more money to the program, and more lenders were eligible to accept applications, small business owners were generally able to access a loan.

The first round of PPP was very effective in helping small employers maintain payroll as well as paying other eligible expenses that were critical in business operations. The reopening of the PPP

loan program last month appears to be operating much more smoothly. Lenders and small business owners are far more familiar with the program, and the allocation of funds was staggered at the beginning to better serve first those populations of small business owners who found the program extremely difficult to access during the initial rollout last year.

Small business owners are eager to get back to business, but it will be some time before those more public-facing businesses—restaurants, retail, and many in the service sector—are able to fully operate again. These small businesses will likely need additional support so that when the economy fully reopens, they are in a strong position to take advantage of returning customers and consumer spending.

Small business owners often have limited time and resources to find, navigate, and access target-assistance programs. Most small business owners are familiar with the PPP, and the SBA's Economic Injury Disaster Loans, another program, that despite its challenges, is often very effective in helping keep small business owners afloat. I would encourage members of the subcommittee to keep these programs front and center and focus resources on reaching out to those communities still struggling to access the programs. The PPP loan program is currently the best way to help those small business owners who are still negatively impacted by the pandemic.

In going forward, the SBA's EIDL and 7(a) loan programs will be valuable resources for those needing additional financing not otherwise available to them. Thank you for having me here, and I yield back. Thank you.

[The prepared statement of Ms. Wade can be found on page 55 of the appendix.]

Chairman HIMES. Thank you very much, Ms. Wade.

I now recognize myself for 5 minutes for questions. And Mr. Cunningham, I am going to start with you, but I am going to invite the other witnesses to add on to this. The question of technical assistance has sort of permeated all of your presentations, and I saw in my own district what happened with less sophisticated businesses as they were asked to approach banks and did not necessarily have banking relationships.

Mr. Cunningham, what would technical assistance actually look like on the ground? I remember when the PPP was rolled out, there was an absolute panic, in the sense that banks were getting the guidance 24 hours before they had to open for business. So I would love to have you paint a picture of what effective technical assistance would look like.

Mr. CUNNINGHAM. Yes. Thank you, Mr. Chairman. I would start by saying that effective technical assistance really begins with a trusted relationship between the person or the organization providing that technical assistance and the business. And we call it trusted guidance for that reason because many of the minority businesses do not have that kind of resource to actually buy technical assistance like many other businesses do.

So by providing that technical assistance, what it looks like on the ground is, one, going through completely the financial situation of that business, looking at them from a strategic perspective of

where they are trying to position their business, and it is also getting down in the nitty-gritty of what are their support structures such as accounting, such as issues of marketing, such as their ability to actually seek new markets for their products or services. And so, technical assistance experts actually help that business figure out what their current path is, restructure their loans or other financing if necessary, engage them with a formal bank in a formal banking relationship, or a deep relationship with a CDFI or others. So it can take different forms, but it is all about starting a business off in one place and then moving them actually to a growth trajectory over time or creating some stability for that business so that business can survive in this pandemic that we have.

Chairman HIMES. And, Mr. Cunningham, before I open it up to the other witnesses to opine, I am still not 100 percent clear on who would actually be providing—are we talking about people inside banks? Are we talking about the SBA? SCORE? Who would actually provide that technical assistance?

Mr. CUNNINGHAM. Yes. Mr. Chairman, there are several different ways that can happen. One is that the Minority Business Development Agency has over 40 centers throughout the country that actually provide deep and technical assistance. There are also community-based organizations that are nonprofits in those communities that provide technical assistance. CDFIs provide a lot of that technical assistance.

Most of the time with the larger banks and others, they do not provide those types of services, and so part of the reason why minority businesses come to alternative lenders such as Lendistry and others is because they actually have a trusted relationship, and that organization is located directly in their community. And so, it creates a dynamic of, you are not going to open up your books to everybody. You are going to open it up to folks that you actually have a relationship with and who are trying to change.

So, those are the institutions that are in community, and it could be different in Indianapolis than it is in Minneapolis in terms of the ecosystem of supports, but they all are doing the same thing.

Chairman HIMES. Thank you. Thank you, Mr. Cunningham.

I have just 60 seconds left, so let me invite the other witnesses, if they have views on how we might be more effective on technical assistance, to offer their thoughts?

Ms. BROWN-MASSEY. Chairman Himes, I do have one that I would like to suggest. I know this meeting was held virtually, but I actually did travel to New York for this meeting. And when I was meeting with a massage therapist inside of the Tulsa Airport, she said that she was unable to access the loans as well because she did not know how to classify her income as a massage therapist inside of an airport right now during these times. So, I ended up giving her extra money, on top of the payment, so that I could help her in some way to get groceries, because she was not getting the income that she once would have right now.

Chairman HIMES. Thank you. Thank you, Ms. Brown-Massey. I am pretty much out of time. The Members are aware of the fact that we have an unanticipated Floor vote right now, so I am going to recognize Ranking Member Hill.

Mr. San Nicholas, before I do that, you are getting the virtual gavel, so I will recognize Mr. Hill, then you are next, and hopefully, I can get back and reassume the chair. But if not, you are Chair pro tempore. Thanks.

And with that, I recognize Ranking Member Hill.

Mr. HILL. Thanks, Mr. Chairman, and what an excellent panel. I know the Members are delighted to listen to these informed, knowledgeable panelists. And, of course, you are talking about very good specifics on how to improve our small business lending programs like the PPP, EIDL, and the 7(a) program, and those are all under the jurisdiction of the House Small Business Committee, not this committee. But I think the discussion has been very informative.

I represent the fourth-largest CDFI, depository CDFI in the country, Southern Bancorp in central Arkansas, and they do such a great job. And I was on the CDFI advisory board during the end of Bush 43 and the beginning of the Obama Administration. So, I have seen the good work of the CDFIs and the CDFI loan funds around the country. And I know how engaged you have been and that is why Congress, in both the CARES Act and the subsequent bills, has increased the set-asides that were being discussed.

Mr. Sands talked about \$30 billion in PPP for CDFIs and minority banks. And then in the December bill, \$12 billion direct to the CDFI fund so that they can do direct investment in low- to moderate-income communities. And then, a \$15 billion set-aside, if you want to use that term, for minority banks and CDFIs in the third round of PPP.

And when you look at the loans in those programs, they really are for everything from \$500, up to 87 percent of the loans were under \$150,000. So, it really was a remarkable program. And I appreciate Ms. Wade talking about how many of her members benefited, and all of our Members of Congress love doing business with and visiting with our NFID members in our district.

Ms. Brown-Massey, I really feel your pain. I was a very entrepreneurial person, starting businesses and helping others start theirs for over 3 decades before I came to Congress. And I really could relate to your story, and Tulsa is 5 hours from Little Rock, so I urge you to move to Little Rock. We will take better care of you than those Oklahomans. But you made a really good comment, that we need support urgently and it cannot be in loans. And, of course, this program to the States can do other things besides loans, but it is effectively another loan program.

This is why we are all frustrated, everybody on this call, with how ineffectual EIDL was. It was a black box. You did not know if you were going to get \$1,000 or \$10,000. You did not know if you were going to be qualified, and you had to wait weeks. That has been improved, but if I could wave a magic wand, we would have a significant improvement in the EIDL program and remove it from this black-box status.

It is designed for a hurricane. It is designed for a tornado. It is not designed for a permanent—not permanent, but a 50-State crisis like this pandemic. So, do you still believe that a PPP-type loan grant program is the better approach to help you, Ms. Brown-Massey?

Ms. BROWN-MASSEY. Ranking Member Hill, I think both at this point are needed.

Mr. HILL. Yes.

Ms. BROWN-MASSEY. I really think this idea of exploring, getting extra capital to each State to deploy out to the citizens of each State, is more effective. Like Holly was saying, a lot of the banks are bigger. Smaller ones have gone, and so there are a lot of challenges in that relationship-building that a lot of cities and towns have lost in this day and age. I think that incorporating the States in some capacity in these times is very much necessary.

Mr. HILL. I agree. And in the technical assistance discussion, the hand-holding, the mentorship that Mr. Cunningham was addressing, this is so key. In Little Rock, we have the conductor, which is a Kauffman Foundation, a supported organization, a small business center at the university, plus our chambers, plus our CDFIs use their nonprofit arms to do a lot of that mentorship. But I also saw a lot of community banks bend over backwards to help people fill forms out just to get them the help, so I agree that mentorship is very important.

But again, let me thank our panelists for being here. I know we are going to have a good discussion. I, too, am going to go vote, so Mr. San Nicholas, I am going to yield back.

Mr. SAN NICHOLAS. [presiding]. Thank you, Mr. Hill.

And let me begin, first, by recognizing myself in the speaking order, but also by stating for the record, that I was very impressed by our subcommittee chairman's introductory statement, and for sharing his sentiment as well, on the excellence of our ranking member and his ability to contribute to the dialogue.

I also want to open by saying, Ms. Brown-Massey, that your story, your circumstances are not unique. But for you to be able to share them in this subcommittee, it is so important. And what you have gone through is what so many other Americans have gone through. And what this Congress needs to do and what it has been trying to do is to find ways to, of course, support the broad needs that are presenting themselves in this pandemic, but to now go in as we do these next rounds and figure out how we can further enhance the programs and tweak the programs to make them more effective.

But I just wanted to say that your story is very, very impressive. With the sacrifices you are willing to make to be a successful entrepreneur, you are really the story of every-day Americans here in this country.

Mr. Sands, I wanted to give you an opportunity to further elaborate on what your recommendations are and how we can improve, or particularly improve, access to SSBCI support. And I am interested in your perspective, being from a lender, on how we can further enhance the SSBCI program to help those borrowers out there who are coming to institutions such as yours, seeking support, and what some of the roadblocks might be on the SSBCI program, or what some of the components are that we can further support financially or with maybe some improved access points?

Mr. SANDS. Thank you, Congressman. I will first say that the program, as initially designed, was designed well, and I think that one of the things we have to always recognize is that programs

need to be tweaked and we need to learn from different programs whether it be the SSBCI or whether it be PPP or others.

The first thing I think we need to concentrate on when we are thinking about an intentional focus in terms of where capital flows is the deployers of capital. One great thing, which has been mentioned here, is that Congress has already made the decision to invest in CDFIs, giving more money to the CDFI fund, including the recent \$12 billion in H.R. 7933. And we thank Chairwoman Waters and other Congress professionals, men and women, for that help.

Now that that resource has been invested, and prior to that resource being invested, there were already CDFIs with this intentionality, whether it be the technical assistance that Mr. Cunningham mentioned or whether it be the ability to actually lend to these communities. They do not actually have to build rapport. They just need to be empowered to do more. And we have been able to see this in a couple of the programs that we run.

For example, in the State of Pennsylvania, we ran a program in which 18 CDFIs collaborated. We took in 62,000 applications, in 20 days, for \$1.1 billion of requests. That scenario of what we did, we have done through nine other programs. I have had admission-based lenders collaborate together.

And so, I think in this SSBCI 2, what we need to do is just recognize where are the opportunities for these collaborations that have already been created? You take a company like Lendistry, which has already built a technical infrastructure or a technology infrastructure, and again, the intentionality and the capital is now pouring in. So, I think we have a huge opportunity to do something fairly significant here with SSBCI Version 2. Thank you.

Mr. SAN NICHOLAS. Mr. Kellogg, please?

Mr. KELLOGG. Representative San Nicolas, thank you. I wanted to clarify one point that of the SSBCI funds, one-third was used for equity programs, so two-thirds were used for loan programs. One-third was for programs that would help launch new programs or help the growth of small business. And that money for equity is so scarce, especially for minority-owned firms. And it is critically needed in areas that are often not thought of as the—where equity capital is available. So this money for equity did not go to California, the Boston area, or the New York City area. Instead, it went to areas like Oklahoma, Tennessee, Michigan, Wisconsin, and the State of Washington. So, there is an important use of SSBCI for that kind of investment capital. I just wanted to bring that to the subcommittee's attention. Thank you.

Mr. SAN NICHOLAS. Thank you very much. My time has expired, so I yield back. And I recognize Mr. Williams of Texas for 5 minutes.

Mr. WILLIAMS OF TEXAS. Thank you, Mr. Chairman. Aggressive tax policy allows businesses to make money, create cash flow, and expand their operations. After we passed the Tax Cuts and Job Act, we saw more jobs than people, which caused businesses to compete in order to attract workers. In the auto industry, we saw car washers making as much as \$18 an hour after the tax cuts went into effect. Competition and a booming economy increased workers' wages, not government mandates like a \$15 minimum wage. This one-size-fits-all system might be feasible in some cities like New

York or Los Angeles, but for businesses in Clifton or Coppers Cove, Texas, this additional cost would be devastating for small businesses.

Ms. Wade, can you talk about the effects of increasing the Federal minimum wage to \$15 an hour?

Ms. WADE. Certainly. We just actually today released a survey on the effects of a proposed \$15 minimum wage on small employers. And roughly three-fourths of them said they would be negatively impacted if they had to comply with a \$15 minimum wage increase over 5 years. And this increase of a \$15 minimum wage would most negatively impact those industries that are most negatively impacted, unfortunately, by the pandemic. So, those public-facing businesses—restaurants retail, and accommodations—would have the most negative impact of an increase in minimum wage.

But it is not just having the increase to a \$15 minimum wage. It is increasing everybody around that \$15 minimum wage level and adjusting those compensations for experience and the technical aspects of the position. Business owners, when asked how they would absorb those costs, said it would primarily go to lower earnings, but also reducing employee hours, reducing the number of employee, both part time and full time, and not filling open positions.

Mr. WILLIAMS OF TEXAS. Coming out of the COVID-19 pandemic, we need to make sure entrepreneurs are able to take a chance on themselves to pursue the American Dream. If someone lost their job because of the pandemic and wants to try to start their own business, and we have some great examples here today, we need to do all we can to support those efforts. Our economic system is built on competition, it is built on risk and reward, and we need to be examining the barriers to entry that are preventing people from taking that leap of faith and to bet on themselves.

So another question to you, Ms. Wade, can you talk about some of the barriers to entry that we should be looking to lower in order to make it easier for someone to start their own business?

Ms. WADE. Sure. Absolutely. For small business owners or people trying to start a small business, lowering the barrier to entry is a critical component. The increased costs, not only on the Federal level, but on the State and local levels, just raised the barrier of entry for many people who are wanting to start a small business. The more it costs to hire that next employee, the less likely that will happen. And the more challenging it is to navigate the regulatory system and tax compliance system in operating a business, you will find less folks likely to open and start a business. Those are the main challenges. It is a lot, but regulatory and tax compliance are two of the biggest ones.

Mr. WILLIAMS OF TEXAS. That is right. The nation puts more in the hands of the people and the small business owners than the government, which gets its return on investment. So lastly, the Paycheck Protection Program was a success in quickly giving out money to businesses in need. By partnering with the private sector, banks and financial institutions were able to distribute hundreds of millions of dollars in record time. There were some flaws with the program when it was first implemented, but it seems to be running smoother now than it has been, this second time around.

Ms. Wade, what lessons can we take from the Paycheck Protection Program that we could try to incorporate in other government programs to assist small businesses?

Ms. WADE. Using the vast structure of the banking system was key in getting the money out to small business owners. But many said that the relationship of small business owners to their bank was a crucial component that many small business owners lacked, and that relationship is often occurring at smaller and community banks, which have those relationship lending experiences that are important. So the decline in those types of banks, I think is crucial in supporting that relationship.

Mr. WILLIAMS OF TEXAS. I would just close by saying the banks did a tremendous job. I do not know another country in the world that could have done what our banks did, and we need to compliment them.

With that in mind, Mr. Chairman, I yield back.

Chairman HIMES. Thank you, Mr. Williams.

With that, we will go to Mr. Torres of New York.

Mr. TORRES. Thank you, Mr. Chairman. I have a question about the performance of the Mainstream Lending Program, which is run by the Federal Reserve before expiring at the end of 2020. Even though the program had \$600 billion in lending capacity, it only generated \$16.5 billion in loans. I am wondering if anyone on the panel knows why the program appeared to have performed so poorly?

Ms. WADE. I will just jump in here quickly. At NFIB, we surveyed to see how the understanding or just knowing about the program for the small business community and it was largely not heard of. It was not advertised. But also, the big component that was such a challenge was the 5-year loan term and having to pay that back in such a quick timeframe. That is why the Economic Injury Disaster Loan Program is so helpful, with that 30-year term loan. The Main Street Lending Program was just too difficult to navigate, in terms of being comfortable and paying back those loans, but also even knowing that the program existed was a challenge.

Mr. TORRES. Thank you. That is helpful.

I have a question for Mr. Kellogg. I know the Obama Administration regarded SSBCI as a success story in partnership with the Federal Government. The States leveraged a \$1.5 billion to generate \$10.7 billion in loans and investments, and it is said to have led to the creation and retention of 240,000 jobs. I know you laid out some of the reforms that could be made to the program. I am curious to know how you would evaluate the efficacy of the program relative to PPP? I do not know if you heard my question, Mr. Kellogg? I think you are on mute.

Mr. KELLOGG. Thank you. I'm sorry. My connection has not been reliable, but I can hear you now.

Mr. TORRES. Did you hear my question?

Mr. KELLOGG. No. Would you mind repeating it?

Mr. TORRES. I was just asking if you could compare the merits of the PPP program to the merits of SSBCI. Which one do you see as more effective?

Mr. KELLOGG. I think they are both critical. The PPP was designed to provide 2½ months' worth of payroll expense on a forgivable basis, which was critical to survival. But it was never designed to be a program to help businesses grow. And the SSBCI program was designed to encourage banks and investors to make those kind of growth investments. So, they serve a different policy service. Is that helpful?

Mr. TORRES. Fair enough. I have a question about minority-owned businesses, which were hit the hardest by the pandemic. As you know, in the early months of the pandemic, 41 percent of Black-owned businesses, and 32 percent of Latino-owned businesses were wiped out essentially overnight by the economic impact of COVID-19. And not only are minority-owned businesses the first to be hit the hardest, but they are often the last to receive relief, as we saw with the first round of PPP.

I am wondering, should there be a program that is dedicated specifically to providing financing to minority-owned businesses? It seems to me that whenever we create a race-neutral, generally-applicable program, it almost invariably leaves behind minority-owned businesses. I know the MBDA is a dedicated facilitator for minority-owned businesses, but I am wondering if there should be a dedicated lender for minority-owned businesses? Any thoughts on that?

Mr. SANDS. Mr. Torres, can I—

Mr. TORRES. Sure. Thank you. Whomever has thoughts.

Mr. KELLOGG. I have two thoughts. I think we have—

Mr. SANDS. I'm sorry. I am just going to jump in. I think what we have, and you have seen this through a couple of programs, PPP, Main Street, and also in SSBCI, we do not necessarily have a programmatic issue. We have a deployment-of-capital issue. And so, we are not giving the capital to those who understand where the capital needs to be deployed. And it is structurally incorrect. And I would also tell you an unintended consequence of the \$4- to \$5- to \$6 trillion that will end up here through our multiple stimulus, we are about to repeat the process.

We keep assuming that a bank that has excess capital is going to all of a sudden do smaller loans. It is actually contrary to the business operations. If they have more capital, they are going to do larger loans. So what we have to understand is that we have to create structures in which the larger institutions capitalize the smaller institutions, and then the smaller institutions, which are already in touch with the community, will be the ones who deploy the capital.

CDFIs represent the new community bank. We used to be in a structure where there were 30,000 banks, and now we are in a structure where there are 5,000, and we are saying, why didn't things happen the way they used to happen? Well, it is because our structure is out of line. Once we fix the structure, which is one of the things that we are recommending to the SSBCI program is their effort [inaudible] banks when they fund CDFIs. Thank you for your time.

Chairman HIMES. Thank you. The gentleman from Ohio, Mr. Davidson, is recognized for 5 minutes.

Mr. DAVIDSON. I thank the chairman, and I thank the witnesses. I really appreciate this hearing, as a small business owner myself. Having survived as the owner of manufacturing companies through the 2008 financial crisis, frankly, I have appreciated watching this one vicariously. It looks like a pretty tough thing to ride through as a business owner. So for those of you who are doing it as business owners, I hope you make it the full way through it. Far too many people have lost their lives. We have lost too much freedom. And a big part of that is the way to operate businesses during this cycle. So hopefully, we can get back to the great economy we had around this time last year.

Virtually everyone I spoke with at this time last year would say the biggest barrier they had was work force. "Everything is going great. The only constraint on our growth is work force, the right skill set, availability, all those kinds of things." And I think our economy has the potential to get back to that, but it really highlights one of the most important things that is not being highlighted in this hearing: The most important stimulus check Americans can get right now is a paycheck.

We have to keep that paycheck pipeline flowing and that is truly one of the big successes of the Paycheck Protection Program. It is artificial. It is clearly not sustainable, and you cannot replace a centrally planned, centrally distributed, government-printed money from future generations, a backstop, with a functioning market economy. So we are dealing with the limitations of that, and I think the sooner we safely reopen our country, the sooner we are going to see the market function and we are going to see paychecks happen.

But I want to highlight the Paycheck Protection Program in the Eighth District of Ohio. There were just about 9,000 loans made during 2020 to small businesses in the Eighth District of Ohio. We have about 730,000 people in our district. We had over 100,000 people stay on payroll because of the PPP. Roughly 80 percent of those loans were for \$150,000 or less.

So I think it is fitting that we are highlighting small business, jurisdictional highlights, as Mr. Hill has made an aside, it is an incredibly substantial part of how this piece worked. And the benefit was, of course, to the businesses who were able to keep that payroll function there, but it was very importantly to individuals and families who not only stayed on payroll; they kept their benefits in many of the workplaces that provided their benefits.

And so, when States did respond as situations permitted, sometimes with lots of criticism, but when they did open up and let people return to work, we could actually access the real impact of the pandemic because then people were making rational decisions based off of their risk-assessment of the pandemic. They really had political risk, and some places, like Ohio, still have political risk. You cannot operate your business between 10 p.m. and 5 a.m. in Ohio, depending on the nature of your business, for example. There are large restrictions in many parts of the country, especially on hospitality.

I am thankful that in Washington, D.C., restaurants are at least able to have in-person dining again. There have been large black-

outs, and this is real political risk, so this is not a sustainable thing.

Ms. Wade, I want to highlight the NFIB. This is a strong voice in the Eighth District of Ohio, and so on behalf of the local folks, thanks for the work the national chapter does. And I really want to appreciate the work NFIB did to highlight the Corporate Transparency Act. This is a new requirement, a new burden on small businesses with 20 or fewer employees, to file a report with FinCEN once a year. So, thanks for your work on that.

What other burdens have been put on small businesses that you wish this body would pay more attention to?

Ms. WADE. Thank you for that. Most of the challenges that small business owners are facing right now outside of the health crisis, which is overwhelmingly the biggest issue that they are facing, are related to tax compliance and regulatory burdens. Once they are back on their feet and the economy largely reopens and consumer spending resumes, those challenges will remain, and again, on a Federal, State, and local level, it is becoming increasingly difficult for small business owners to operate and devote attention to their operations instead of paperwork and paying more taxes with their earnings that they can then reinvest in their business. So, those are the big challenges going forward.

Mr. DAVIDSON. Thank you. My time has expired, and thanks for the summary. Thanks to all of our witnesses, and I yield back.

Chairman HIMES. The gentleman from Massachusetts, Mr. Lynch, is recognized for 5 minutes.

Mr. LYNCH. Thank you, Mr. Chairman, and congratulations, Mr. Chairman, on your appointment, and congratulations also to my friend from Arkansas, Mr. Hill. Congratulations to both of you. I do want to associate myself with the chairman's opening statement. I think it is very important to lay that groundwork and also, I think that the importance of the subcommittee's jurisdiction is as important as it has ever been, and I really look forward to working with all of the members of the subcommittee going forward.

I do agree with French Hill. This is an exceptional panel, so my congratulations to the staff who puts this stuff together, on both the Majority and the Minority witnesses.

Ms. Brown-Massey, thank you so much for your service, and for your family's service, and for your example. As Mr. San Nicholas pointed out, you have a great story, and you are a shining example of what we hope for.

My friend, Mr. Sands, it is good to see you again. Mr. Sands was kind enough to testify before our FinTech Task Force, and he has been a wonderful example of the good work that fintechs can do in banking the unbanked. The first iteration of the CARES Act and our PPP program sort of misfired, right? We did not get to all of the minority businesses that we had hoped to get to—I think we put \$130 billion out on the extension and that was very good.

But one of the exceptions was Lendistry. Mr. Sands, it seems like you had a very good match. A lot of the fintech firms did not have a pre-existing relationship with the SBA. I do not know, but I get the sense that the fintechs viewed the SBA as sort of the old model, kind of stodgy, big on applications, all of that stuff and tradition data. But Lendistry was very good. You seemed to hook up

right away. When we gave over \$400 billion to the SBA, other people found them, right? Because they were the conduit, but you had a pre-existing relationship with the SBA and you also had great success, much greater success than other fintech lenders in actually getting the money out the door to minority businesses.

So I am wondering, is there something that you attribute your success to in being more successful than a lot of other people out there in the field? For awhile, I have been thinking about that, and it's good to have you before the subcommittee. So, I wondered if you could help me with that?

Mr. SANDS. Yes. Thank you, Congressman Lynch. I think what makes Lendistry different is the fabric of our team. We are a group of bankers similar to some of you here on the line. And so, we were financial people who had to learn technology. And once we were enabled to learn the technology and understand the velocity by which the technology comes, that made us be able to transcend what we normally do or what we had done in the past.

Again, the intentionality and the community aspect, that was already borne in us, myself, personally, having worked at two African-American banks prior to going to a national bank. And I think I would be remiss if I did not mention that we started to partner with banks. Our first important partner was Goldman Sachs. They linked us up with their 10,000 small businesses. What started as a \$10 million conversation matured into a \$200 million conversation and we worked together and we partnered. I would also be remiss if I did not mention some of the CDFIs who worked with us to help us reach those communities.

Thank you, Ms. Brown-Massey, for your service. We were able to reach small businesses that look like her, and feel like her, and unfortunately, I wish we could have reached her.

But I still think there is work to be done and that is why I am here today to talk about SSBCI. And even SBA, we still are struggling as responsible lending institutions to be able to extend nationwide, to be able to have automatic approvals even though we have been through a regulatory process. Lendistry has four regulatory bodies that oversee us, but yet when we apply for things like SSBCI, we have to go on a State-by-State minutia, which I respect as a former banker.

I definitely believe in regulation. I definitely believe in oversight. But I also think that it is imperative and urgent that we recognize what is going on now, because you take someone like Lendistry, we are going to end up doing a billion dollars [inaudible] 5 billion or \$10 billion. Thank you for your time.

Mr. LYNCH. Thank you, Mr. Chairman. I yield back.

Chairman HIMES. Thank you, Mr. Lynch.

The gentleman from Texas, Mr. Taylor, is recognized for 5 minutes.

Mr. TAYLOR. Thank you, Mr. Chairman. I really appreciate this conversation. I think it is really an important topic, and just to kind of build on what Mr. Lynch and you were talking about just in terms of, why are smaller loans not getting done, I think a lot of the regulatory requirements that have been put on community banks have really squeezed them. I was the vice chairman of a community bank for 12 years. In that short 12 years, we went from

8,000 banks in the United States to 5,000 banks. And fewer banks mean bigger banks, and bigger banks mean they are not going to do smaller loans.

I want to say, in reading your written testimony, I am very impressed with some of the numbers, Mr. Sands, about what you are able to do in terms of doing smaller loans. And so to that, could you sort of go into some of the more technical aspects of what you were able to do with fintech, to be able to do smaller loans? Because that is something that I know at my bank, we wanted to do smaller loans. We just could not figure out how to underwrite and manage those loans that were smaller and really have it make sense. The margin was not really there to support that. So what have you done, and how did fintech help you do it?

Mr. SANDS. I think it is a two-part process. The first part is the partnerships and the collaboration on the ground. As a banker, old school, we would do loan production offices. New school is, you leverage technology.

I will give you an example of that. In the State of California, we are doing a \$500 million grant program. In 15 days, we took in 344,000 applications, successful applications. We have 35 partners. We have 400 co-partners. All of them are mission—

Mr. TAYLOR. Are you chartering branches in California to do that?

Mr. SANDS. We have two locations in California but we have 500 [inaudible]. And then, this will get to the technology part.

What is important, as you hear from Ms. Brown-Massey, is that we make sure that we give the user a seamless experience, that we give them a similar experience. So, we create multiple different types of applications, multiple different processes. This is where it gets clunky and these are the things that we need to work on. And this is what we have learned that technology enables us to do. So when you add collaboration plus technology, it creates a seamless user experience.

Then, we have to work on scalability. And scalability is about the partnerships and it is about the intentionality of what we are focused on. And what we have been able to do here at Lendistry is, we have been able to say it does not matter where we are at. So if you take California, we speak in 30 different languages. We have webinars in 18 different languages. It does not matter whether it is rural. It does not matter whether it is Black, White, Asian; it does not matter because, again, you are leveraging technology, you are leveraging marketing automation, and you are leveraging partnerships in order to meet your need. And that is what we have learned how to do.

Mr. TAYLOR. Are you underwriting in an automated fashion or are you using AI to underwrite so that you can expedite that component of what you are doing?

Mr. SANDS. Yes. It depends on the loan size. The best way I would say it is that what technology allows us to do is technology allows us to create filters and allows us to concentrate on where the underwriting should be spent. I think that is the most important thing. Because what we learn from the technology side is that you could have scalable infrastructure in terms of sales leads. What we learned from the technology side is that you can have a

comprehensive approach to credit. And what I mean by comprehensive approach is that you have to treat a service business differently than you treat a restaurant business, differently than you treat a real estate transaction. But if you can create alignment inside of your banking unit, as you know, and generally a bank, it is an underwriting unit that is kind of A to Z. They know everything, as opposed to somewhat of a streamlined process where they become experts, whether it is an SBA loan, an SSBCI loan, or others.

So the answer to your question is, we leverage the technology to filter. We still are bankers, hopefully not too old and stodgy as sometimes we call ourselves, but we still want to have that manual touch. What we do is we filter the loan and the information before we get to that manual touch.

Mr. TAYLOR. Are you using credit scores in order to filter? Is that part of your underwriting process?

Mr. SANDS. That is part of our underwriting process. We have about 74 different points. Again, we are community-oriented, so we have no problem picking up the phone and walking through things with the client.

Mr. TAYLOR. Sure.

Mr. SANDS. But there are certain levels of clients that do not need that. They just want to get a loan. We have talked about banks and banks getting larger. Operational efficiency-wise, loan size has become a big issue for banks, and so sometimes it is—

Mr. TAYLOR. So if I were to get rid of credit scores, would that be deleterious to your ability to lend? Does that mess up your AI algorithm to figure out who is creditworthy?

Mr. SANDS. I think you always want the datapoints in lending, especially when we are talking about small businesses. We have to remember, when you get the sole proprietors, they are closer to consumer loans than they are to commercial loans. So, I think the credit report always plays a role.

Mr. TAYLOR. Thank you.

Mr. Chairman, I yield back.

Chairman HIMES. The gentleman yields back. The gentleman from Massachusetts, Mr. Auchincloss, is recognized for 5 minutes.

Mr. AUCHINCLOSS. Thank you all for joining us today. I agree with my colleagues that this is a very impressive and informative panel. My district is in Massachusetts, and the southeastern portion of it, on the border with Rhode Island, has been particularly hard-hit by the pandemic. It is just an hour outside of Boston, and the region is ripe for economic development, especially in life sciences, manufacturing everything from medical gowns to biologics. That would lead to good jobs but also to the public health resilience that we need in the face of this pandemic and for future pandemics.

Technical assistance is obviously much-needed but so is capital to help this region, a post-industrial region, really seize on its economic-development opportunity. This question is for both Mr. Kellogg and Mr. Sands.

Based on your experiences with Lendistry and with the State Small Business Credit Initiative, how can we better incent capital formation really, really far upstream in terms of creating bio-ready

sites and in terms of giving the capital structure that would-be entrepreneurs need to become manufacturers in the life sciences space?

Mr. KELLOGG. Do you want to take that, Everett?

Mr. SANDS. Yes, sure. I think the first thing, Congressman, that we always want to look at is that creating structure means creating a path to success when you are talking about small business ownership. So, I think the structure, again, relates to capital. Where I think CDFIs and mission-based organizations play a role is in what I would call the startup to the small, and the medium-sized. Then, that business should graduate.

As Mr. Cunningham mentioned, intertwined in that graduation is technical assistance, is business advising, is a certain amount of support. But that business should then graduate into a more structured approach. I do not think necessarily the industry matters because I think industry experts are really part of the technical assistance. And truthfully, no one knows better than the business owner when it comes to their industry. As bankers, we would like to think that we know things, but we do not know the metrics as well as the business owner does. What we want to do is just create a structure for the path of success as it relates to capital as they grow that business.

Mr. KELLOGG. My comments would focus first on physical infrastructure, and second on human infrastructure. And physical infrastructure—obviously, there is a lot of conversation nationwide about the state of our infrastructure of all types, and that is critical to making a location an attractive place to do business. And then the human infrastructure, I think, centers around our education intuitions, and by that, I am including universities, but also our community colleges. And the human infrastructure for entrepreneurship includes very much an ecosystem of investors, angel investors, successful entrepreneurs and mentors as well. So both of those are precursors, I think, to getting the maximum potential out of a region. I hope that is responsive.

Mr. AUCHINCLOSS. It is. And I am proud to say that Massachusetts has many of those ingredients you just mentioned. We have reasonably good housing stock in the south coast, relatively good transportation infrastructure, although not good enough, and certainly a tremendous amount of talent both in greater Boston and in southeastern Massachusetts.

Is there a role that you see the Federal Government playing in the provision of low-interest loans or in grants to help people with a process that at the beginning, is high risk, because it involves both permitting, if you are talking about bio-ready sites, for example, as well as being able to attract the right kind of investor and developer?

Mr. SANDS. Yes. Excuse me, Mr. Kellogg, if I am over-speaking here, but I think this is one of the unique things that the SSBCI program did, is that it allowed States to determine what was important to them and then build capital programs accordingly. So, for example, Michigan was focusing on manufacturing and a couple of other things, which was obvious, because of the auto industry at the time the SSBCI first came out. So I think absolutely, on a

State level, you could decide what are the industries you would like to see some significant capital investment and benefit from that.

Mr. KELLOGG. That is exactly right. As I said in my testimony, local conditions create different capital gaps and local conditions create different opportunities to use the credit and capital market systems that exist there. That is the value of a flexible State-by-State decision-making.

Chairman HIMES. The gentleman yields back. The gentleman from Texas, Mr. Green, who is also the chairman of our Subcommittee on Oversight and Investigations, is recognized for 5 minutes.

Mr. GREEN. Thank you ever so much, Mr. Chairman. And many times, Mr. Chairman, these words of gratitude and thanks are stated in a perfunctory fashion. I say this sincerely, not perfunctorily. I say so because I think this is a very meaningful hearing, and I think that it can cause us to give thought to how we can correct some of the things that we should have corrected years, decades, or perhaps even longer ago, so I thank you for the hearing.

I also want to thank Chairwoman Waters because she has been a champion in this area for years, ever since I have known her, and I knew her before I came to Congress. This has been something that has been of importance to her. And I am grateful that she has you at the helm, and I thank Mr. Hill as well. He and I have collaborated on issues in the past, and I trust that we will be able to continue our collaboration.

I would like to talk to you for just a moment, if I may, about something of importance, which is the Minority Business Development Agency. A little bit of history: In 1969, President Nixon, by way of an Executive Order, created an Office of Minority Business Enterprise. Later on, President Carter renamed it the Minority Business Development Agency. This Agency, as it were, is devoted exclusively to the growth and expansion of minority business enterprise by providing technical assistance, managerial expertise, support, and resources, and this is all for minority-owned businesses.

Given that it was created by Executive Order, it continues to survive from President to President. In the CARES Act, we appropriated approximately \$10 million, not nearly enough, but it was something, and that was a good benefit, because at least we continued it. Ten million dollars to this Agency which allowed minority Members of Congress to give grants to provide outreach and technical assistance to its members.

Last Congress, I introduced H.R. 6869, the Minority Business Resiliency Act, and I wish I could say that I developed and synthesized it myself, but it was because of the Honorable Maxine Waters and the staff that I was allowed to have this as a piece of legislation to go forward with.

In the CARES Act, we had \$25 million for minority business development, for the Agency. And now, what we would like to do is permanently codify this Minority Business Development Agency into an administration, and have it as an independent agency that would be tasked with, and be the only one with this unique task of satiating and satisfying the needs of minority-owned businesses. I think it is time to give serious consideration to this, and for this reason, I would like to ask all of the witnesses, if I may, to tell me

whether you think there is a need for an agency with this mission that can give benefit to you for a good many things that you have talked about today.

So, I will start with Ms. Brown-Massey. Thank you for your service. I appreciate much of what you said about having some difficulties in accessing the system in an appropriate way. But with that said, ma'am, would you give your comments on the possibility of this Agency being codified, made permanent, so that we can help minority-owned businesses in this unique way?

Ms. BROWN-MASSEY. Yes, Congressman, thank you. I do think that this particular Agency that you are mentioning is of use, but I also think that we should be looking for local communities to set up minority chambers of commerce so that they are able to better understand what their community needs are at the local level. So, yes, I do agree.

Mr. GREEN. Thank you very much.

Mr. Cunningham, if you would please?

Mr. CUNNINGHAM. Yes, briefly. Absolutely. The Minority Business Development Agency (MBDA) has a group of 40 organizations that are located in cities and rural places throughout the country. It would be fantastic if we could actually knit together a permanent agency for the MBDA. The future of American small businesses actually are minority businesses. And so, if we concentrate on that, we will help everyone in this country. Thank you.

Chairman HIMES. The gentleman's time, having expired, we will bring this hearing to a close. I would like to profusely thank all of our witnesses for their testimony today. It was a very interesting and very timely conversation that we had, and we really appreciate your preparation and participation.

Without objection, the following items are entered into the record: a letter from the Small Business Majority; a joint letter from the U.S. Black Chambers, the U.S. Hispanic Chamber of Commerce, and National ACE; a letter from the Brookings Institution Metropolitan Policy Program; the Annual Report for Fiscal Year 2020 from the SEC's Office of the Advocate of Small Business Capital Formation; and a letter from the Center for Indian Country Development at the Federal Reserve Bank of Minneapolis.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

Again, with a big thank you to our witnesses, this hearing is adjourned.

[Whereupon, at 4:43 p.m., the hearing was adjourned.]

A P P E N D I X

February 4, 2021



U.S. House Committee on Financial Services
Subcommittee on National Security, International
Development, and Monetary Policy

**“Supporting Small and Minority-Owned Businesses
Through the Pandemic”**

**February 04, 2021
3:00 P.M.**

Testimony of Nneka Brown-Massey
Founder & CEO,
Innovative Supplies Worldwide, Inc.
Tulsa, Oklahoma

Chairman Himes, Ranking Member Hill, and members of the Subcommittee:

Thank you for the opportunity to testify today on the need to better support minority-owned and smaller businesses like mine. I am honored and humbled to speak before your esteemed panel and to be alongside my distinguished fellow witnesses. More importantly, thank you for putting this hearing topic front-and-center at the start of the 117th Congress and demonstrating your strong commitment to helping the small business community.

My name is Nneka Brown-Massey and I am the founder and CEO of Innovative Supplies Worldwide, a school supplies design company based in Tulsa, Oklahoma. I am also speaking today as a member of Main Street Alliance, a national network of more than 30,000 small business owners who, like me, are eager to share their perspectives on critical public policy issues, especially as we try to find our way out of this once-in-a-lifetime pandemic.

My Story

In July of 2016, less than two months after finishing my nine-year career as a Human Resources Specialist in the United States Army, I launched Innovative Supplies Worldwide, a stationery manufacturing company. In the first 24 hours of my e-commerce launch, my brand new business had sold more than 8,000 stationery notebooks globally. In 2017, former Georgia Governor Nathan Deal recognized my company with the G.L.O.B.E award. In 2018, I was named to the prestigious 40 under 40 List in the Gifts + Stationery Industry. Soon after, I was accepted into and completed the Class of 2018 Women Business Enterprise National Council Student Entrepreneur Program and the National Minority Supplier Development Council Emerging Young Entrepreneur program. Needless to say, the future could not have looked better or brighter for my start-up company.

Then COVID-19 hit us all last Spring, and in my case, caused consumers to shift to online classes. With the transition to remote and digital learning, demand for my physical product dipped and my sales dropped more than 60 percent. Despite the revenue loss, I remained hopeful we would come together and beat this virus so that schools could safely reopen in the Fall and allow my business to return. Yet here we are, almost a full calendar year later, still struggling to come to grips with the magnitude of this pandemic, while my seasonal business suffers a fourth consecutive quarter of low-to-no sales.

My Struggle to Access Capital

When relief programs opened last April following passage of the CARES Act, I immediately applied for both the PPP and EIDL small business support. However, after months of radio

silence, I was finally told in June by a Small Business Administration (SBA) representative that I had been denied both for vague “credit reasons.” This was devastating not only for me and my family, but also for my lone employee I then had to lay off. But the lack of clear communication from beginning to end speaks to a larger issue of training and accountability at SBA.

Part of the frustration of applying for the PPP was that I was forced to establish a new relationship with a new bank because the bank I previously worked with closed their only branch in my town, forcing me to drive nearly two hours to reach the next-closest location. I eventually had to make the difficult and life-changing decision to move from Columbus, GA to Tulsa, OK to be closer to the services I needed since being in a rural area was making the process too challenging.

To compound matters I am a service disabled veteran with concussion complications from airborne missions held inside the United States with the 82nd Airborne Division. As a result of injuries I sustained, my executive functioning skills impact the ability to manage and process large amounts of paperwork without disability accommodations or support. The extensive and complicated loan application process required to access credit and capital became overwhelming for me.

My Attempts to Cope, Personally and Professionally

As profits dissipated and capital dried up for my struggling business, I resorted to using disability benefits from the Department of veteran affairs for my traumatic brain injuries and post traumatic stress disorder. It wasn’t too long before my car was repossessed. Then I was forced to take a second job at Waffle House just to get by.

With what little faith I had left, I applied for the Tulsa Remote Program, a business incubator, and was accepted into the program that pays Remote Workers \$10,000 to move to Tulsa, Oklahoma for a year. However, just to pay for the move, I used my tax refund and my stimulus check. This has been the only source of financial support I’ve gotten, but it has at least allowed me to keep my business afloat.

I started my business with small loans through fintech providers, which I have paid back slowly and diligently as my sales came through -- though likely at much higher interest rates than from other lenders. In the meantime, I am still relying on my VA benefits for housing. I have also decided to use some of that support to go back to school.

My Wish List for Myself and Others Like Me

What my experience underscores are the very real barriers that exist when it comes to accessing capital and credit. As a person of color, living in a rural area, who wasn't well connected to the banking industry, I should have known that my chances of securing financial support were already slim. But I also believed, perhaps naively, that the immediate and early success of my business would help my cause in spite of those inherent disadvantages. So far, the former has trumped the latter.

I am here today not just to share my story, but to advocate for other small business owners who could just as easily be sitting on this panel. COVID-19 continues to present the greatest threat in generations to the country's more than 30 million small businesses, particularly businesses in Black and Brown communities, micro-businesses, veteran and women-owned businesses, and businesses in rural communities. A [survey](#) conducted last Fall by Main Street Alliance and Color of Change found that nearly half of Black owned businesses were saying they would have to close without additional support (compared to a third of businesses overall). Women-owned businesses had to wait longer, and in some cases were 10 times less likely to hear in a couple days from their lenders compared to their male counterparts. In that same survey, among small business owners who applied for any of the government aid programs, only 58% said they received the full amount they applied for, and Black men and women were twice as likely than that to not receive what they applied for. While waiting for economic assistance people of color and women owners were more likely across the board to reduce hours, pay, or make other financial sacrifices.

Main Street small businesses are the mainstay of our jobs, our economy, and our community life. They are also the [most trusted](#) institution in our country. Yet, since January 2020, more than a quarter of the country's small businesses have shuttered, and small business revenue is down by [32 percent](#) (as of December 31, 2020 according to the Opportunity Insights Economy Tracker).

What would have helped me the most, and could still help me now, is a flexible, responsive, direct grants program. Even just a \$5k-10k grant can change the course of my business and my life. The other needed support is technical assistance -- someone who can point me in the right direction, help me navigate programs I am unfamiliar with, and make sure I dot the i's and cross the t's. I simply can't afford an accountant or a lawyer on payroll who might offer expert advice and counsel.

During these times when COVID has closed many business doors around the country, small business owners are now unable to afford their commercial or personal rent. This is made worse by the fact that commercial leases often don't allow tenants to live in their place of work. I am personally living off the grid and in a school bus that I won through an eBay bid in January 2020, so that I can have more liquid capital to pay for commercial rent.

My Journey Continues

In closing, I am grateful to appear before this committee today. Despite experiencing the highest of highs and the lowest of lows, at the end of the day I am an entrepreneur trying my hardest and doing my best to succeed. I have proudly and dutifully served my country, sought the same opportunities that others have been afforded, and done whatever necessary to achieve financial freedom -- including packing my bags, moving to a foreign place, and securing my daughter's well-being by making the incredibly painful decision to send her to be with her father in another state rather than force her to share the same sacrifices I am making. Despite the setbacks I have been dealt, I look forward to resuming the business mentorship I was providing to my employees, many of whom are "at-risk" youth -- training them on inventory software, social media marketing, résumé building, and other skill sets. Despite everything I have been through, I still believe in myself and the potential of future entrepreneurs.

I hope that you and your colleagues in Congress will make the most of this uniquely challenging yet historic moment in time to learn from the past and [rethink entrepreneurship](#) in this country. There are a number of lessons from 2020 and the uneven implementation of COVID relief programs for small businesses. My experience is one data point that could be built into a more intentional and systematic effort to collect quality disaggregated data about minority-owned small businesses.

There should be a thorough examination of SBA lending, technical assistance, and other programs to assess their effectiveness for supporting very small businesses, including minority-owned businesses, rural businesses, and other underserved Main Street businesses. Consumer protections should be expanded to small business borrowers, guaranteeing that: small business borrowers receive clear, accurate information that allows them to compare financial products; financial corporations cannot charge excessive interest rates and fees or engage in abusive debt collection practices; and, small business owners can retain personal assets while financing their businesses. Lastly, Congress should consider a new public entity to dramatically expand access to capital for small businesses by better assessing small business needs, exploring alternate measures to credit history, and delivering support along with technical assistance on the scale they need.

In closing, you have the ability to make course corrections in the midst of this pandemic to build a resilient, flourishing small business economy for the future by:

- Rebuilding businesses like mine that have been devastated by COVID, focusing on grants to hardest-hit businesses, those excluded from earlier relief programs, and businesses having to pivot as a result of the pandemic;
- Adequately addressing our capital, credit, and business development needs through increased outreach and technical assistance, especially in communities of color and rural areas;
- Leveling the playing field for small businesses by supporting a safety net for owners and their employees; and
- Reining in monopolies that inhibit the ability of small businesses to compete and thrive.

Thank you for your time and attention. I look forward to answering any questions you may have.

**Testimony of Gary L. Cunningham
President and CEO of Prosperity Now
Before the Financial Services Subcommittee on National Security, International Development
and Monetary Policy
Thursday, February 4, 2021**

Chairman Himes, Chairwoman Waters, Ranking Member McHenry and other Members of the Full Committee, thank you for inviting me here today. It is truly an honor.

My name is Gary Cunningham, and I am the President and CEO of Prosperity Now, a national non-profit that creates, identifies, tests, and scales new and existing solutions that address the root causes of racial economic injustice. I came to Prosperity Now after serving as the president and CEO of a Community Development Financial Institution and Minority Business Development Center. Therefore, I have had experience working hands-on with the Minority Business Development Agency, the State Small Business Credit Initiative, and the Small Business Administration to help entrepreneurs of color succeed.

I'd like to begin by setting the stage. According to the data from the US Senate Committee on Small Business and Entrepreneurs, over the last ten years, minority businesses accounted for more than 50 percent of all new business starts in the United States, and created more than 4.7 million jobs. There are now more than four million minority owned companies in the US, with annual sales of close to \$7 billion. That's a sizeable footprint. Ensuring their financial health as an employer and economic contributor, therefore, is critical.

Small minority business owners are the lifeblood of many communities. They hire a significant percentage of the minority workforce. For example, the Association for Enterprise Opportunity, where I'm the Board chair, completed a study that demonstrates that over 20 percent of the African American workforce in this country are employed by Black-owned firms.

It's critical that we develop specific approaches to help minority businesses grow and scale. This will require targeted programs designed to serve those that have been historically left out—due to the vestiges of discriminatory policies and practices that continue to this day.

For instance, the Paycheck Protection Program, a universal program with outstanding goals, did not reach all businesses equally. Many minority owned businesses were left out of the process inadvertently because the universal program wasn't targeted to their specific situation. Many minority businesses couldn't take advantage because funds were primarily directed to commercial banks and other mainstream financial institutions. Many minority businesses do not have strong relationships with large banks or other financial institutions. It's important to note that even in better times, Black business owners were denied bank loans at triple the rate of nonminority business owners. And on average, Black and Latinx businesses have seven billion dollars in unmet capital needs annually.

We are losing economic productivity and trillions of dollars in GDP when we don't fortify and support a strong ecosystem of minority business enterprise. In fact, according to the US Business Census, Black-owned businesses were the fastest growing business segment in our economy before COVID hit. Between February and May last year, however, a whopping 41 percent of Black-owned firms shuttered. The impact of COVID on BIPOC businesses is dire and threatens to undo the growth seen in the last decade.

I must be clear, however. I am not here to argue for hand-outs. I'm here to argue that targeted, strategic investments to minority businesses will yield significant returns in the forms of increased home ownership, jobs, and tax revenue streams to support local communities. Such an investment makes sense not only in the context of our current crisis, but will also help America build back better.

White-owned firms have significantly higher revenues than BIPOC firms. This is the result of gaps in access to specifically management education or technical assistance, money (access to capital) and markets.

From my experience in working with minority entrepreneurs, access to technical assistance is the secret sauce of success. Trusted guidance in the form of technical assistance is needed to grow and scale. Many need investments in their infrastructure such as bookkeeping and accounting, or even how to successfully apply for a loan. The current systems of SSBCI, MBDA and SBA provide needed infrastructure that should be expanded.

As has been documented by the Federal Reserve and others, another significant barrier is a lack of access to capital. Given the significant wealth gap in this country, BIPOC entrepreneurs are at a significant disadvantage from the start. BIPOC wealth is substantially less, on average, than White wealth in the US. Therefore, many BIPOC business owners don't even have a 401(k) to tap into or friends and family to borrow from to start their businesses.

Despite all of these barriers, entrepreneurs of color are making a difference in this country. They are at the forefront of closing the racial wealth divide. A study from the University of Washington showed that on average, the income gap between white and Black families closed completely for Black families with an entrepreneur.

We face a moment of true reckoning—there's just so much at stake. Giving minority businesses the tools to survive can result in stronger employment and economic outcomes, a healthier trajectory for communities across the country, and a chance to truly close the growing racial wealth gap. Closing this gap is not just a moral argument, it is vital to establish a sound economic future—and, according to McKinsey & Company, could increase the GDP by 1 trillion to 1.5 trillion dollars over the next decade.

Thank you again for the opportunity to be here. I look forward to your questions.

Testimony of Clifton G. Kellogg

House Financial Services Committee Subcommittee on National Security, International Development, and Monetary Policy “Supporting Small and Minority-Owned Businesses Through the Pandemic” February 4, 2021

Hi, my name is Cliff Kellogg. I would like to thank the committee for inviting me today and for holding this hearing on this crucial issue. My full resume has been provided to the committee, however I believe the committee invited my testimony primarily based on my experience directing the State Small Business Credit Initiative during the Obama-Biden Administration, an initiative the committee is considering for reauthorization.

First, I would like to review SSBCI's outcomes to demonstrate that this economic recovery program can play a critical role in the recovery of small businesses and communities across the country. Second, I would like to offer a few ideas on how SSBCI could be scaled up and extend its impact on minority owned businesses and disadvantaged communities.

In the wake of the 2009 recession, lawmakers designed SSBCI to induce more private-sector lending and investing. Then, as now, economic conditions made lenders and investors extremely cautious. Today, the lack of credit is literally starving many small businesses to death, but especially minority-owned firms. In the Federal Reserve Banks' Small Business Credit Survey released yesterday, just 13 percent of African American owned firms received the full amount of financing they sought, while over three times as many White-owned firms received the full amount they requested.

SSBCI's strategy is to provide states with funds to turbo-charge the availability of loans and equity capital by sharing in the risk of financial losses. In 2010, SSBCI awarded \$1.5B to programs in all 50 states, D.C., and the U.S. territories.

- SSBCI funds supported over 21,000 new loans and investments, exceeding \$10.7 billion. In other words, each federal dollar leveraged \$9 in private sector capital.
- 43 percent of the loans or investments went to firms in low- or moderate-income census tracts, and 41 percent went to women-owned or minority-owned businesses.
- SSBCI built the capacity of state agencies to benefit underserved businesses and communities.

I will share three lessons or observations:

1. A key element of SSBCI's success was giving states the flexibility to design their program to suit local conditions. States funded startups and expansions, manufacturing loans and microloans. States provided additional collateral for loans or funded reserve accounts for losses on a portfolio of loans. Some states operated their program directly; others hired a private contractor to manage the program.

2. SSBCI support enabled lenders to make larger loans or loans on more favorable terms than they would have made. SSBCI required at least \$1 of private capital at risk for every federal dollar. The state's application had to show how leverage would increase to 10:1 during the program.
3. Well-run programs reached a vast range of small businesses, including underserved businesses. The hallmarks of a well-run program are simple: identify the capital gaps, make the program easy to understand, and staff the program with lenders or investors who are responsive to the needs of aspiring entrepreneurs and businesses, including minority-owned firms.

Now, I will turn to a critical question before the Committee: how could SSBCI Version 2 be structured?

1. First, re-authorizing the original SSBCI program with higher appropriations to benefit more businesses. As part of reauthorization, states should include outreach through CDFIs and Minority Depository Institutions (MDIs). States should be authorized to gather demographic information on small businesses served and be held accountable to invest a fair share in disadvantaged businesses.
2. Increase states' allocations or run a competitive funding round for **states** that reach a high percentage and/or high number of minority-owned firms. Consider lowering the required leverage requirements for these extra funds.
3. Provide funding for technical assistance to small businesses, which is essential to assure equitable access and optimum use of these resources.
4. Run a competitive funding round that awards funds **directly to lenders and investors** with a multi-state footprint, provided they serve a high percentage and/or high number of minority-owned firms. A multi-state footprint is especially important for equity investment programs that target underserved communities for an adequate deal flow.

In summary, after the last major recession, SSBCI demonstrably supported small business economic recovery. The current credit crisis is even more severe, The public health measures taken to control the COVID-19 pandemic have inflicted a terrible cost on minority small businesses and their employees. The need to find solutions is surely a unifying issue across the political spectrum. An expanded SSBCI, with enhancements to reach underserved communities can be part of the nation's recovery strategy.

Thank you for the opportunity to offer this information and I welcome any questions you may have.

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TESTIMONY OF EVERETT K. SANDS TO THE
HOUSE FINANCIAL SERVICES COMMITTEE'S
SUBCOMMITTEE ON
NATIONAL SECURITY, INTERNATIONAL DEVELOPMENT, AND MONETARY POLICY

Supporting Small and Minority-Owned Businesses Through the Pandemic

February 4, 2020



Committee Chairwoman Waters, Ranking Member McHenry, Subcommittee Chair Himes, Subcommittee Ranking Member Hill and Vice Ranking Member Taylor, and distinguished members of the Subcommittee, thank you for your interest in my perspectives and insights on today's topic, Supporting Small and Minority-Owned Businesses Through the Pandemic, and for inviting me to testify before you today. I also wish to extend my wishes for a full and rapid recovery to Congressman Lynch, who was very generous in providing me the opportunity to testify before his Task Force last fall, as well as to any of his family members, colleagues or staff who may be affected.

My name is Everett K. Sands, and I have more than 20 years of experience in lending. For the past five years, as founder and CEO of Lendistry, my focus has been on responsible lending to underserved small businesses, and particularly those owned by minorities, women, veterans, and people in rural areas. By the one-year anniversary of the onset of COVID-19 lockdowns and their related impacts, Lendistry will have been the primary point of contact in connecting tens of thousands of affected small businesses -overwhelmingly minority-owned - with nearly \$1 billion in loans or grants.

I commend this Subcommittee, and other House and Senate subcommittees and committees with which it is working, for moving so rapidly in recent weeks to focus on reauthorizing the State Small Business Credit Initiative (SSBCI). I will focus a significant portion of my testimony on the SSBCI and recommendations I respectfully urge the Subcommittee to consider as it develops potential authorizing legislation.

To preview and summarize my main points regarding the SSBCI specifically:

- 1) The funding level for the SSBCI should be at least \$10 billion;
- 2) The portion of the authorized funds for the SSBCI that will be dedicated to minority-owned businesses should be 60%;
- 3) At least 5% of authorized funds for the SSBCI should be dedicated to enhancing and providing technical assistance to prospective applicants, particularly in the areas of i) recovery planning, ii) generating financial statements, iii) upgrading technological skills to take advantage of commonly-available and increasingly necessary business software tools and applications and iv) understanding credit;
- 4) The legislation should grant automatic authorization to offer SSBCI-supported loans nationwide to the following categories of federally-certified institutions so that such institutions are exempted from any state-by-state approval process: Community Development Financial Institutions (CDFIs) and Small Business Administration-approved Community Development Corporations (CDCs) and Business Development Corporations (BDCs);
- 5) With regard to program design, each program supported by the SSBCI should provide for loans to minority-owned businesses to qualify for 10% additional guaranteed coverage; and
- 6) The legislation and rules should create mechanisms to rescind funds from states that fail to deploy their allocated capital expeditiously and redeploy rescinded funds to states that effectively utilize program funds.

I. Introduction

I have more than 20 years of experience in the banking and lending fields. Prior to starting Lendistry, I worked in both national and community banking. I have served as a Board Member and an Executive for two minority deposit institutions; as a sales team leader for a national bank on both the East and West coasts; as a member of committees focused on compliance, rate-risk, and commercial lending; and as a manager of credit and operations departments. I also currently serve as a Board Member of the University of Pennsylvania's Institute for Urban Research, and of Lendistry's nonprofit small business advisory and technical assistance affiliate, The Center for Strategic Economic Studies and Institutional Development ("The Center").



As a banker I typically served in a change agent capacity, being called in to turn around a unit of a bank, and as such, units I have led typically recorded annual growth rates of between 300% and 600%. I have closed more than \$4 billion in transactions. During my career, businesses I have led have been regulated by the Federal Deposit Insurance Corporation, Federal Housing Administration, Federal Housing Finance Agency, Federal Home Loan Bank of San Francisco, Office of Comptroller of Currency, Office of Thrift Supervision, Small Business Administration, Veterans Administration and various state regulators.

Lendistry is a minority-owned and fintech CDFI and Community Development Entity (CDE), and a member of the Federal Home Loan Bank of San Francisco. Women and minorities comprise a significant majority of Lendistry's management team. Our proprietary technology and online application portal enable a faster and more widely accessible lending process for small business borrowers. As a CDFI, Lendistry is dedicated to providing economic opportunities and progressive growth for underserved urban and rural small business borrowers and their communities. The Center also offers business coaching, financial education and technical assistance. Lendistry is a proud signatory of the Small Business Borrowers' Bill of Rights, guidelines set by The Responsible Business Lending Coalition.

I recruited a team to start Lendistry with me because I saw that consolidation trends in the community banking and regional banking segments were leaving an expanding gap in the small business lending market. Small businesses that were ready to graduate beyond financing themselves through credit cards and home equity were finding far fewer community banks available to help them take the next step in their growth so that they eventually could become large enough for a large regional or national bank to serve them. (The dual trends of dwindling numbers of community banks and larger banks withdrawing from the smaller end of the small business market due to operational efficiency considerations has continued and become so pronounced that I believe the definition of "underserved small business borrower" should be expanded to include a loan size threshold, and loan size has become a larger and more significant barrier to capital access for small businesses than all other traditional criteria combined.) Into this credit vacuum for small businesses, unscrupulous lenders have proliferated and thrived.

This adverse capital availability environment for small businesses was, and continues to be, compounded for entrepreneurs with historically weaker ties to traditional banks, including women and minorities, as well as entrepreneurs based in rural areas with fewer banking options. I believed technology could play a significant role in the solution, and by approaching fintech from my banking background rather than from a technology background, I believed I could bring a somewhat differentiated lens to the market.

Since launching in 2015, Lendistry has sought to use fintech—and partnerships with financial institutions, non-profits and government organizations—to help solve the problem of disparities in access to capital, to open doors that were previously closed to small businesses owned by minorities, women, and veterans, businesses located in rural areas, or businesses whose financing needs to take the next step in their development are just too small for traditional banks.

As a hybrid of a fintech lender and community bank, and with roots in traditional banking as mentioned above, Lendistry combines the best of fintech—efficiency, scalability, and seamless user experience—with the best of traditional lending—low cost of acquisition, low cost of funds, and strong risk management—and all with an unwavering commitment to responsible credit culture and expanding access to small business funding.

Today Lendistry ranks second nationwide in SBA Community Advantage lending, a pilot program spearheaded in 2011 to increase SBA-guaranteed loans to small businesses in underserved areas. Community Advantage loans range in size between \$50,000 and \$250,000, and it is the only category of SBA loan in which Black and Latinx borrowers, combined, account for more than 10% of annual loan volume. More than 73% of Lendistry's outstanding principal loan balance is



with minority and women-owned borrowers, and 92% of Lendistry's outstanding principal loan balance is with low- or moderate-income borrowers.

Lendistry also has a highly nuanced understanding of small business ecosystems. In the fourth quarter of 2020, Lendistry, Next Street Financial, Concerned Capital and other local stakeholders, published a detailed examination of the current small business community and supporting ecosystem in Los Angeles County, with a focus on local businesses owned by people of color and the COVID-19 response and recovery.

Ecosystems and partnerships are fundamental to Lendistry's operating method and philosophy. Lendistry has partnerships in place with more than 50 organizations, including business associations, chambers of commerce, Community Development Financial Institutions, and mission-based organizations. These partners in turn have extensive networks, enabling Lendistry to reach underserved geographies, demographics and provide services and support in more than 15 languages.

With our reach, technology, and operational and capital capacity, Lendistry has both the ability and interest to serve a much larger geographic footprint and broader market than we do today and fill the lending gaps left by mainstream finance for the benefit of small businesses, and particularly those owned by minorities, women, veterans and those in rural areas.

II. Lendistry and COVID-19 Small Business Recovery Effort

In response to the COVID-19 crisis, Lendistry has stepped up to provide desperately needed capital to small businesses struggling amid the pandemic, both as a lender and as an administrator of state and local grant programs, including those made possible by the Coronavirus Relief Fund under the CARES Act and state funding sources. By the one-year anniversary of the onset of COVID-19 lockdowns and their related impacts, Lendistry will have been the primary point of contact in connecting tens of thousands of affected small businesses - overwhelmingly minority-owned - with nearly \$1 billion in loans or grants.

The urgent need among small businesses - particularly very small businesses and those owned by historically disadvantaged people, which data show have minimal reserve resources to withstand a prolonged downturn - has been a challenge that we at Lendistry believed from the beginning of the pandemic we were built to take on. The business owners we are mission-bound to serve have been suffering a crisis of financial liquidity, and we knew we possessed the relationships to connect with them, the technology to serve them, the experience to meet them where they are, and the technical assistance to help guide them.

What we never had before, however, were two critical ingredients: access to a very large amount of capital to deploy, and access to geographic territories outside of California. Once Lendistry was selected by Goldman Sachs' *10,000 Small Businesses Initiative* to have access to \$175 million in capital to deploy for SBA Paycheck Protection Plan loans and was granted authorization by the SBA to expand our footprint to 12 states with large populations, diverse populations, and significant rural areas - the true power of our platform and our organization was unleashed.

During the four-month span of our PPP offering in 2020, Lendistry originated, processed and approved more than \$180 million in PPP loans to more than 3,500 small businesses.

The major learnings of PPP for Lendistry, and we believe for policymakers, is that lack of access to capital and territory were significant limiting factors to the impact that Lendistry had been able to make prior to PPP – despite the fact that



Lendistry is a CDFI, a CDE and a member of the Federal Home Loan Bank of San Francisco. We believe these takeaways also apply to many if not all CDFIs generally.

This point bears emphasis as an area for public policy to address: two significant barriers to CDFIs' ability to have greater impact in our mission are 1) the fact that CDFIs must depend on larger financial institutions for capital, rather than having direct access to Fed facilities, even though CDFIs are certified by the Treasury Department, and 2) the fact that CDFIs – again, despite being federally-certified – must obtain separate approvals from the SBA for each state they wish to serve.

Lendistry's contribution to the small business recovery effort amid the COVID-19 pandemic has not been limited to PPP, however. By the one-year anniversary of the pandemic-related shutdowns, Lendistry will have administered \$780 million in small business coronavirus relief grants funded by federal CARES Act funds and state resources. This aggregate amount includes \$280 million in CARES Act funds to more than 17,000 small businesses across all 67 counties of the Commonwealth of Pennsylvania, through the statewide PA CARES program and eight separate county-sponsored programs, all of which were completed in the fourth quarter of 2020; and \$500 million to California small businesses through a state-funded program that launched in late December and is expected to conclude in March.

Importantly, all ten of the small business coronavirus relief grant programs administered by Lendistry to date have not been first-come, first-served. Rather, one of Lendistry's significant responsibilities has been to design systems to efficiently execute grant programs intentionally conceived to prioritize impact.

In Pennsylvania, where more than 62,000 small business owners applied for grants ranging in size from \$5,000 to \$50,000, 50% of the total grant pool was allocated to business owned by Historically Disadvantaged entrepreneurs, and of these: (i) 81.6% were low-to-moderate income, (ii) 94.7% were in NAICS priority industries, (iii) 67.4% had greater than 75% revenue loss, (iv) 22.8% were located in Revitalization Areas, (v) 15.9% were located in rural communities, and (vi) 62% were women-owned businesses. In California, with more than 300,000 applications completed and processed in the first of two application rounds, small businesses and nonprofits selected (pending a verification step) for grants ranging from \$5,000 to \$25,000 are: (i) 77% underserved and disadvantaged small businesses; (ii) 51% owned by a minority; (iii) 49% women-owned; (iv) 58% LMI; and (v) 14% rural.

Lendistry's active engagement in small business grant administration and PPP loans during the pandemic reflects the many similar capabilities required in such roles as those that are demanded in traditional underserved lending: building an engine to process a high volume of applications according to criteria specified by the state or local authority, providing technical support for applicants, processing the applications, verifying information, complying with applicable federal requirements, reporting on the status, and ultimately funding approved businesses. The difference between the current pandemic environment and the past is the effort being placed on intentional programs to help underserved communities, such as the SSBCI program.

III. The Need for Public Policy to Address, in the Interest of National Economic Expansion as Well as Equity, a Double Imperative for Small and Minority-Owned Businesses: Survival and Recovery, and New Launches and Growth

An important factor that left small businesses extraordinarily vulnerable to the vicious effects of the pandemic is the 20-year contraction in capital access for small businesses, as illustrated by the dramatic reduction in the number of community banks over that time, from 8,315 FDIC-insured banks in 2000 to 4,519 in 2019, with just 32 new FDIC-insured



bank charters issued since 2010.¹ As the number of banks has declined, the median asset size of remaining banks has grown by more than 500%, from \$751 million in 2000 to \$3.9 billion in 2019². In general, the larger a bank, the higher its thresholds for what constitutes operationally efficient and economically worthwhile relationships and transactions. Ever-larger banks have quietly yet steadily raised their minimum business loan amounts. The result is that business size and loan size have become inversely correlated with being underserved by banks, alongside more widely recognized factors such as minority ownership.

The void left behind in the smaller end of the business banking market by vanishing community banks and receding bigger banks has been filled by an explosion of unscrupulous lenders offering high-interest loans funded by private investors. As a result, small businesses, and particularly minority-owned small businesses, entered the pandemic already starved of cash flow and a financial cushion. Their businesses were severely undercapitalized because their choice was no choice at all: either enter into unsustainable lending arrangements that starve their businesses of cash flow, or forgo such loans and remain sub-scale, often as sole proprietors, without a path to growing big enough to be served by traditional banks offering competitive lending terms.

Today, as the pandemic nears the one-year mark, it is vital to recognize the two-fold imperative for small and minority-owned business financing, and the full opportunity that a reauthorized SSBCI must capture. Not only is capital needed for survival and recovery, it also is needed for new business formation and growth. New launches in and following a downturn represent an enormous opportunity for job creation, wealth creation and community revitalization. Fulfilling the double imperative of business survival and recovery and business formation and growth demands an ample capital allocation to the SSBCI program, along with thoughtful program design that applies learnings from the lessons of the past.

The Subcommittee's Hearing Memo cogently framed, presented and supported the dire circumstances for small and particularly minority-owned businesses during the pandemic, as well as many of the inequities that were found to have limited the effectiveness of the public policy response to the effects of the pandemic. Federal Reserve Banks in 2020 also were active in documenting the impacts to small business, and the attendant racial disparities.³

Below I bring to the Subcommittee's attention several items of complementary data to that which is included within the Subcommittee's Hearing Memo, to illustrate and support the double imperative stated above. In general, the information and sources that follow provide the Subcommittee with i) more recent data underscoring the urgency of further action to business recovery, and ii) evidence of the importance of acting boldly enough to support business formation and growth, in the interests of both equity and national economic expansion.

- 1) Recent Additional Evidence of the Stakes and Barriers for Small and Minority-Owned Business Survival and Recovery:
 - A. A continuing unemployment crisis is disproportionately impacting Black and Latinx populations, as well as women.

¹ [FDIC BankFind Suite: Find Annual Historical Data Bank](#); also find graphic representations at Statista.com for annual [total FDIC-chartered banks](#) and [new FDIC-chartered banks](#)

² [FDIC BankFind Suite: Find Annual Historical Data Bank](#)

³ See, among others: [Can Small Firms Weather the Economic Effects of COVID-19, April 2020](#); [Double Jeopardy: COVID-19's Concentrated Health and Wealth Effects in Black Communities, August 2020](#); [An Uphill Battle: COVID-19's Outsized Toll on Minority-Owned Firms, October 2020](#)



- The overall unemployment rate in December 2020 was 6.7%, but the Black (9.9%) and Hispanic (9.3%) unemployment rates were more than 50% higher than the white (6.0%) unemployment rate.⁴
 - Women accounted for all of the net job losses in December 2020.⁵
 - January 2021's initial jobless claims rates (all adults) were the highest since August 2020.⁶
- B. Small and minority-owned businesses that survived into November are in distress and believe greater access to capital and technical assistance can help.
- The number of small businesses open as of year-end 2020 compared to January 2020 was 29.7% lower - the lowest point since May 2020.⁷
 - Newly-published research⁸ from the nonprofit Small Business Majority of a scientific opinion poll conducted in November 2020 reveals, among other things, that:
 - 18% of Black and 18% of Latino entrepreneurs report they are likely to close their business in the next three months (i.e., February), compared with 14% of white small business owners.
 - 29% of Black and 32% of Latino entrepreneurs report they are likely to close their business temporarily in the next three months, compared with 21% of white business owners.
 - 22% of minority business owners may lay off employees permanently in the next three months, compared with 14% of white business owners.
 - Small business owners ranked accessing capital as the 4th most useful measure to help their businesses survive, with Black and Latino respondents rating it significantly more important than the overall mean for all respondents.
 - 68% of all respondents support significantly expanded technical assistance programs.
- C. Public policy in support of minority-owned small business lending is necessary to counteract continuing evidence of racial disparities and bias in small business lending.
- A study conducted and published in 2020 by the National Community Reinvestment Coalition⁹ – part of a series of “matched pair mystery shopping” studies of bias in small business lending conducted by NCRC since 2017 - found racial bias by several Washington, D.C. banks in PPP lending, with white candidates receiving more favorable treatment than similarly-qualified Black candidates in 43% of tests, as evidenced by differences in:
 - levels of encouragement in applying for a loan (including, in 44% of tests that exhibited bias, discouragement of the Black candidate from applying at all, alongside encouragement of the white candidate to apply for more one or more loan products);
 - products offered;
 - information provided by the bank representative.
- The NCRC study's finding significant instances of banks discouraging Black candidates from applying for loans casts light on a two well-documented factors behind disparities in capital access between Black and non-Black business owners: the higher likelihood that Black business

⁴ [Bureau of Labor Statistics, The Employment Situation – December 2020, January 8, 2021](#)

⁵ [Bureau of Labor Statistics, Economic News Release, January 8, 2021](#)

⁶ [Opportunity Insights presentation of BLS data](#)

⁷ [Opportunity Insights](#)

⁸ [Small Business Majority, Scientific Opinion Poll, “Small businesses continue to face closures in 2021,” January 27, 2021](#)

⁹ [“Lending Discrimination within the Paycheck Protection Program,” A. Ledrer, S. Oros, NCRC, July 15, 2020](#)



owners lack a banking relationship (which came into conflict with the original design of the PPP initiative¹⁰) and the higher likelihood that Black business owners will not pursue loans from lenders who offer responsible terms due to fear of rejection. The latter phenomenon was identified as a factor in racial disparities in capital access in a 2010 report published by the Minority Business Development Agency.¹¹

- Federal Reserve research shows that Black entrepreneurs are denied or given lower bank loans than requested at more than twice the rate of white entrepreneurs, 53% vs. 25%.¹² Other research finds that people of color pay higher interest rates than white borrowers.¹³
- Academic research has found evidence that racial bias may play at least a partial role in financial capital differences between minority and non-minority entrepreneurs.¹⁴ The 2016 paper, which examined financing patterns among minority and non-minority entrepreneurs at startup and during early years of operation, also found that Black-owned businesses:
 - start with less capital and do not catch up over time; and
 - face more difficulty in raising external capital and invest lower levels of capital into growth and development.

2) Evidence of the Importance of Supporting Small and Minority-Owned Business Formation and Growth:

A. New business formation and growth account for a significant portion of job creation, which historically has been particularly valuable in recovering from economic downturns.

- “Businesses that are less than 5 years old create nearly all of the net new jobs in the American economy,” according to a 2019 Kauffman Foundation white paper’s¹⁵ summary of published 2013 economic research.¹⁶
- Within the past 15 years, at least two significant economic shocks – one regional, Hurricane Katrina’s unprecedented swath of devastation across the Gulf region, and the other global, in the 2008-2009 Great Recession – taught that when employment is disrupted on a wide scale, new job creation by startups lead the economy from recession to growth.^{17,18}
- Business ownership represents an opportunity for minority households to close the wealth gap, with research over a sustained period showing that individuals who opted for self-employment experienced a growth in wealth four times larger than those who did not seek self-employment.¹⁹

¹⁰ [“Double Jeopardy: COVID-19’s Concentrated Health and Wealth Effect in Black Communities,” Federal Reserve Bank of New York, August 2020](#)

¹¹ [“Disparities in Capital Access between Minority and Non-Minority-Owned Businesses: The Troubling Reality of Capital Limitations Faced by MBEs,” R. Fairlie, A. Robb, for U.S. Department of Commerce, Minority Business Development Agency, January 2010](#)

¹² [Report to Congress on the Availability of Credit to Small Businesses, Board of Governors of the Federal Reserve System, September 2017](#)

¹³ [“Black and White: Access to Capital among Minority-Owned Startups,” R. Fairlie, A. Robb, D. Robinson, Stanford Institute for Economic Policy Research, December 15, 2016](#)

¹⁴ [“Black and White: Access to Capital among Minority-Owned Startups,” R. Fairlie, A. Robb, D. Robinson, University of California, Santa Cruz, March 7, 2016](#)

¹⁵ [Start US Up: American’s New Business Plan, Ewing Marion Kauffman Foundation, October 2019](#)

¹⁶ [“Who Creates Jobs? Small Versus Large Versus Young,” J. Haltiwanger, R. Jarmin, J. Miranda, The Review of Economics and Statistics, May 2013](#)

¹⁷ [“Employment and self-employment in the wake of Hurricane Katrina,” J. Zissimopoulos, L. Karoly, Demography, May 2010](#)

¹⁸ [“Entrepreneurship, economic conditions, and the Great Recession,” R. Fairlie, Institute for Labor Economics, May 2011](#)

¹⁹ [“An Uphill Battle: COVID-19’s Outsized Toll on Minority-Owned Firms,” L. Misera, Federal Reserve Bank of Cleveland, October 2020](#)



- However, a new business that remains small for several years, due to lack of capital or other factors, is unlikely to become a significant source of job creation, which argues for policy – including relating to capital access – to be particularly supportive of startups obtaining and maintaining adequate capital to support investments in expansion.²⁰
 - Furthermore, capital access is a determinant of the industries an entrepreneur can enter, with many higher growth industries requiring greater capital. Minority-owned businesses historically and in the present are concentrated industries with low relatively capital requirements to enter, but which tend not to have high growth characteristics, which in turn is a significant determinant of job creation, employee wage growth and wealth creation.^{21,22}
- B. Local market analyses in two major metropolitan areas, where minority-owned businesses are disproportionate concentrated, project significant unmet needs for capital among small businesses.
- In New York City, projections are for:
 - Small businesses seeking to grow to require \$1.1B- \$2.7B in the first year of recovery; \$689M - \$1.7B of this amount is estimated to be required by minority small business owners.²³
 - New business launches to require \$303M- \$705M in estimated total capital; \$123M- \$287M of this amount is estimated to be required by minority entrepreneurs.²⁴
 - In Los Angeles County, there is an estimated unmet annual capital demand among small businesses of \$60 billion, with particular gaps in lending in neighborhoods with high concentrations of Black and Latinx residents.²⁵
- C. Without sufficient capital, many minority-owned businesses will be unable to benefit from purchasing pledges made by states, municipalities, and private industry in 2020 following protests over the deaths of George Floyd and Breonna Taylor, among others.
- For example, New York City pledged to invigorate and vastly expand municipal contracting with MWBEs, including to grant \$12 billion in City contracts to MWBEs between 2020 and 2025, and to increase utilization of MWBEs for contracts to 30% in the current fiscal year.²⁶ Yet New York City, like many other municipalities, has been scrutinized for lagging behind in contracting with African American, women and Latinx businesses, receiving grades from the NYC Comptroller of F, D and C, respectively, for its performance in fiscal 2019.²⁷ Any progress that is made will

²⁰ [“Who Creates Jobs? Small Versus Large Versus Young,” J. Haltiwanger, R. Jarmin, J. Miranda, The Review of Economics and Statistics, May 2013](#)

²¹ [“To expand the economy, invest in Black businesses,” A. Perry, C. Romer, The Brookings Institution, December 31, 2020](#)

²² [“The Tapestry of Black Business Ownership in America: Untapped Opportunities for Success,” J. Gorman, C. Evans, Association for Enterprise Opportunity, February 16, 2017](#)

²³ [“New York City Small Business Ecosystem Assessment: Building a more inclusive, resilient New York City,” NextStreet & CommonFuture, Fall 2020](#)

²⁴ [“New York City Small Business Ecosystem Assessment: Building a more inclusive, resilient New York City,” NextStreet & CommonFuture, Fall 2020](#)

²⁵ [“Los Angeles County Small Business Ecosystem Assessment: Building a more inclusive, resilient Los Angeles County,” NextStreet & CommonFuture, Fall 2020](#)

²⁶ [“Mayor Signs Executive Order Supporting Minority and Women Owned Business,” Cityland, August 14, 2020](#)

²⁷ [“Making the Grade,” NYC Comptroller Scott M. Stringer, November 17, 2019](#)



translate to outsized growth in need for financing from a segment of businesses that, per the New York Fed data, have weak relationships with traditional banks.²⁸

- In general, large G2B or B2B purchasers maintain significant vendor requirements as a matter of operational and risk management necessity, to ensure their suppliers have the capabilities to fulfill vital orders as specified and on time. Lack of capital should not be a reason minority-owned small businesses cannot take advantage of an overdue but welcome effort on the part of large purchasers to make an economic equity impact with their operating budgets.

D. Multiple major studies in recent years spotlight the enormous opportunity cost to the national economy from racial inequities, and the enormous benefit available to the economy from supporting minority-owned businesses. However, in addition to the recent literature, it also is illuminating to review a report from 2010 commissioned by the Minority Business Development Agency, with interesting parallels to the present day, as the report considered issues around capital access disparities for minority owned businesses in the context of the immediate aftermath of the Great Recession.²⁹ Though it is difficult not to come away from that report with the feeling that we have been here before, I hope it instead will help the Subcommittee redouble your resolve to make the current effort big and smart enough to make a step-change difference in the capital access environment, and for the real prosperity of small and minority-owned businesses.

- According to a 2020 Citigroup study³⁰:
 - Not addressing racial gaps between Blacks and whites has cost the U.S. economy up to \$16 trillion over the past 20 years.
 - Closing four key gaps – wages, homeownership, higher education, a small business financing – could generate \$5 trillion in additional GDP over the next five years, representing 0.35 percentage point boost to U.S. GDP growth per year, and even a positive impact on global growth.
 - Closing the share of Black-owned firms-gap 20 years ago might have generated \$13 trillion of revenues for investment, 6.1 million jobs per year, and a cumulative \$182 billion in income for consumption.
- According to a 2018 study by the W.K. Kellogg Foundation and Altarum³¹:
 - By 2050, the U.S. stands to realize an \$8 trillion gain in GDP by closing the U.S. racial wealth gap – an amount greater than the current GDP of every country in the world except the U.S. and China.
 - Overall spending would increase by \$2.6 trillion. Consumer spending alone could increase by more than \$1 trillion, and federal, state, and local governments in aggregate could gain an additional \$550 billion annually in tax revenue to fund priorities and reduce public debt.
 - The projected boost to GDP would be 22%, or the difference from 2% annual GDP (the CBO's long-term projected growth rate) and 2.5% GDP.

²⁸ ["Double Jeopardy: COVID-19's Concentrated Health and Wealth Effects in Black Communities," Federal Reserve Bank of New York, August 2020](#)

²⁹ ["Disparities in Capital Access between Minority and Non-Minority-Owned Businesses: The Troubling Reality of Capital Limitations Faced by MBEs," R. Fairlie, A. Robb, for U.S. Department of Commerce, Minority Business Development Agency, January 2010](#)

³⁰ ["Closing the Racial Inequality Gaps: The Economic Cost of Black Inequality in the U.S.," Citigroup, September 2020](#)

³¹ ["The Business Case for Racial Equality: A Strategy for Growth," A. Turner, W.K. Kellogg Foundation and Altarum, 2018](#)



- According to a 2017 study by the Association for Enterprise Opportunity³²:
 - If just 15% of Black-owned nonemployee firms (sole proprietors) hired just one employee, it could add \$33 billion to the economy.
 - If Black-owned employer firms added just two more employees, to bring them on par with the average employment size for all U.S. firms, the revenue generated on a per employee basis could add an additional \$22 billion to the economy.

IV. SSBCI's Potential Impact, and Lendistry's Impact in the SSBCI Program

A robust and thoughtfully designed SSBCI reauthorization should have the effect of drawing more lenders into the market to serve smaller and minority-owned businesses. By increasing borrowers' access to responsible sources of financing, the competitive environment for unscrupulous lenders will become more difficult, which in turn would be expected to make them less attractive vehicles for the investors who capitalize them. Furthermore, by attracting new and responsible entrants to the market for financing small and minority-owned businesses, the SSBCI will be a means by which some responsible lenders will gain their first direct experiences with an underserved segment of the borrower market, which in turn could lead some lenders eventually to make expanded commitments to the market segment.

As a CDFI with a mission of serving underserved small business communities, Lendistry has participated in several SSBCI programs over the course of four years, and funded millions of dollars in loans. These programs have allowed us to be flexible in our underwriting criteria while remaining focused on a disciplined credit culture and strong risk management. SSBCI programs have allowed us to finance non-profit schools that serve economically disadvantaged children and veteran and minority owned small businesses that provide employment services to the Department of Defense.

However, we could have originated more. Lendistry had two main barriers to entry into these programs: onerous paperwork as we attempted to gain multi-state approval, and lack of capital to deploy. SSBCI legislation should grant CDFIs automatic authorization to participate in SSBCI programs on a national basis. New SSBCI authorization also must include a process for rescinding funds from states that do not utilize the program expeditiously and redeploying the capital to states that utilize and abide by the program with effective systems for deployment of funds. Such a measure will remedy a flaw in the original SSBCI program, in which some state SSBCI programs still had funds remaining from the initial \$1.5 billion allocation at the expiration of the program, while many other states had exhausted their funds. When authorized funds for such an important and powerful program as SSBCI languish unused, there are underserved small businesses that suffer as a result.

The SSBCI provides a significant incentive for approved lenders to utilize the program, in the form of loan guarantees. Requiring states to add an additional 10% coverage in their credit enhancement programs to each loan to an underserved borrower is a small tweak that would carry a lot of power in enhancing the effectiveness and impact of the SSBCI program for underserved small businesses.

The stakes for expanding responsible lending are enormous and the urgent need for action in this regard cannot be overstated. It is critical that as this Subcommittee and others work on the SSBCI program, both program design and considerations for enabling lenders to maximize their impact remain top of mind.

V. Lendistry's Insights and Recommendations on SSBCI Reauthorization

³² ["The Tapestry of Black Business Ownership in America: Untapped Opportunities for Success," I. Gorman, C. Evans, Association for Enterprise Opportunity, February 16, 2017](#)



To expand on the summary provided in the opening of this testimony:

- 1) The funding level for the SSBCI should be at least \$10 billion. Lendistry agrees with the recommended funding proposal of \$10 billion that has been voiced both within the prior Congress, as reflected by former Congressman McAdams' bill, and from organizations dedicated to closing the funding gap facing minority-owned businesses, such as the Small Business Majority and fellow CDFI, the Opportunity Fund. The funding commitment must be large enough to enable the SSBCI to fulfill the dual imperatives of supporting business survival and stabilization, while also supporting new business formation and growth.
- 2) The portion of the authorized funds for the SSBCI that will be dedicated to minority-owned businesses should be 60%. The disproportionate decimation of minority employment and minority-owned businesses over the past 11 months, combined with the longstanding disparity in access to capital that minority business owners have faced, with ever-increasing implications of gaps in generational wealth creation and neighborhood revitalization, demands that the SSBCI be designed with an intentional objective of making a disproportionately positive impact for minority owned businesses. As an increased focus on equity begins to open new doors to long shut out business owners, it is vital that their businesses have adequate capital necessary to seize the new opportunities. Accordingly, more than a majority of the funding should be dedicated to minority-owned businesses, and 60% is appropriate.
- 3) At least 5% of authorized funds for the SSBCI should be dedicated to enhancing and providing technical assistance to prospective applicants, particularly in the areas of i) recovery planning, ii) generating financial statements, iii) upgrading technological skills in order to take advantage of commonly-available and increasingly necessary business software tools and applications and iv) understanding credit. Lendistry's extensive first-hand experience on the front lines of PPP loan and small business grant administration during the pandemic has crystallized the urgent need among small and minority-owned businesses for significant assistance in fulfilling application requirements, particularly in the specific skill areas noted above. The success of the SSBCI program depends on providing no less than 5% of funding to technical assistance and putting in place oversight to ensure the funds are effectively spent.
- 4) The legislation should grant automatic national authorization to offer SSBCI-supported loans to the following categories of federally-certified institutions so that such institutions are exempted from any federally-conducted state-by-state approval process: Community Development Financial Institutions (CDFIs), and Small Business Administration-approved Community Development Corporations (CDCs) and Business Development Corporations (BDCs). The process of CDFIs, which are federally-certified, obtaining from federal agencies state-by-state approval to expand their geographic footprint is redundant, operationally burdensome and, most important, creates barriers to small businesses obtaining access to capital.
- 5) With regard to program design, each program supported by the SSBCI should provide for loans to minority-owned businesses to qualify for 10% additional guaranteed coverage. For example, a feature of the Collateral Support Program offered by some states is a companion program that provided additional 10% loan coverage for businesses that qualified as operating in a Severely Affected Community. The same principal and benefit should be extended across all programs for minority borrowers.
- 6) The SSBCI's authorizing legislation and rules should recognize the value created by states deploying their allocated funds on an expeditious basis, by creating mechanisms to revoke funds from states that fail to deploy their allocated capital expeditiously and redeploy revoked funds to states that effectively utilize program funds. Such mechanisms would help to address a shortcoming of the original SSBCI program, which resulted in many



state programs running out of funds while other state programs still had funds remaining when the program expired.

VI. Conclusion

Reauthorization of SSBCI is an important opportunity that the Subcommittee should seize aggressively to bring about the degree of impact that is necessary to alleviate and reverse the widening capital disparity and the rapidly deteriorating state of U.S. small and minority-owned businesses during the pandemic, while also supplying necessary capital for new business formation and growth to fuel national economic expansion. It is vital that SSBCI is 1) large enough to meet the dual need; 2) designed to make an impact for minority-owned businesses, from the size of a dedicated allocation to the funding provided for specific technical assistance needs, to features that will help ensure that its funds are deployed expeditiously and completely; and 3) includes provisions that remove obstacles that historically have limited CDFIs' impact.

Lendistry's front lines perspective on the continuing worsening plight of small and minority-owned businesses during the pandemic, combined with the senior management team's longstanding focus on providing critical capital to underserved small businesses, informs the perspectives and recommendations provided today. Thank you for your interest in my testimony and for the opportunity to provide the Subcommittee with my insights.

TESTIMONY BEFORE THE UNITED STATES CONGRESS
ON BEHALF OF THE
NATIONAL FEDERATION OF INDEPENDENT BUSINESS



Statement for the Record of Holly Wade

Executive Director, NFIB Research Center

Before the

**United States House Committee on Financial Services, Subcommittee on
National Security, International Development, and Monetary Policy**

[Hearing on: "Supporting Small and Minority-Owned
Businesses Through the Pandemic"](#)

Thursday, February 4, 2021

National Federation of Independent Business
(NFIB) 555 12th Street, NW Suite 1001
Washington, DC 20004

Chairman Himes, Ranking Member Hill, and distinguished members of the committee, my name is Holly Wade, and I serve as the Executive Director of the National Federation of Independent Business (NFIB) Research Center.

On behalf of NFIB, I appreciate the opportunity to testify before the House Financial Services Subcommittee on National Security, International Development, and Monetary Policy hearing entitled, "Supporting Small and Minority-Owned Businesses Through the Pandemic."

NFIB is the nation's leading small business advocacy association, representing members in Washington, D.C., and all 50 state capitals. Founded in 1943 as a nonprofit, nonpartisan organization, NFIB's mission is to promote and protect the right of its members to own, operate, and grow their businesses. NFIB proudly represents approximately 300,000 members nationwide from every industry and sector.

The NFIB Research Center promotes greater understanding of small business and the conditions that impact it. The Center produces and disseminates various surveys and studies on small business, focusing on areas related to business operations and public policy's effects.

Small businesses employ nearly half of the private sector workforce and are responsible for about half of our Gross Domestic Product (GDP). The small business half of the economy has been significantly damaged by the COVID-19 pandemic. The NFIB Research Center has conducted a series of surveys over the ten months assessing the impact the pandemic has had on small business owners.

These surveys have shown that many small businesses are still struggling to survive as economic conditions and business restrictions remain serious challenges after more than ten months since the national emergency declaration concerning the COVID-19 outbreak.¹ Owners continue to adjust business operations as the health crisis evolves all while trying to keep their employees on the payroll. Still, 15% of small business owners report that they will have to close their doors if current economic conditions do not improve over the next six months, down from 25% two months ago.² Moreover, according to NFIB's latest monthly *Small Business Economic*

¹ *Declaring a National Emergency Concerning the Novel Coronavirus Disease (COVID-19) Outbreak*, Federal Register, Proclamation 9994 of March 13, 2020, <https://www.federalregister.gov/documents/2020/03/18/2020-05794/declaring-a-national-emergency-concerning-the-novel-coronavirus-disease-covid-19-outbreak>.

² Holly Wade, *Covid-19 Small Business Survey (15) – PPP, ERTC, the Economy, the Vaccine, and Minimum Wage*, NFIB Research Center, January 28-31, 2021.

Trends survey, small business optimism dropped below historic averages, with 9 out of 10 components of the index declining. This month's drop in small business optimism is historically very large and most of the decline was due to the outlook of sales and business conditions in the first half of 2021.³ When the small business half of the economy emerges from the public health crisis, it is critically important that they have a solid foundation from which to operate and invest in their business.

The body of my testimony is broken down into two parts. Part 1 is focused on the small business programs created during the health crisis and what has and has not worked well. Part two is focused on the path ahead for small businesses.

Small Business Pandemic Programs – What Has and What Has Not Worked

The Paycheck Protection Program (PPP) has been extremely popular with small business owners with 76% of NFIB members receiving a PPP loan in 2020. Outside of some initial implementation and funding concerns, the first round of PPP was very effective in helping small employers maintain payroll as well paying for other eligible expenses that were critical in business operations.⁴

The PPP was envisioned as providing short-term liquidity to small business owners to help them survive government-mandated economic shutdowns and dramatic shifts in consumer spending. However, many small business owners needed additional financing and assistance with expenses not authorized through the PPP. The Small Business Administration (SBA) Economic Injury Disaster Loan (EIDL) program was intended to provide that longer-term liquidity. The EIDL's 30-year term and 3.75% interest rate were very attractive to many small business owners. About one-third of NFIB members applied for an EIDL loan. However, the EIDL program has been plagued by well-documented administration issues ranging from loan application backlogs to a lack of communication with Congress and stakeholders about funding levels and arbitrary limitations. NFIB still regularly receives phone calls and emails from small business owners complaining that they cannot get updates from the SBA on the status of their EIDL application. EIDL is an important program that provides eligible small business owners with a loan option that would be difficult, if not impossible for many to access in the private lending markets. NFIB urges Congress to use its oversight to ensure that this program

³ William C. Dunkelberg and Holly Wade, *NFIB Small Business Economic Trends*, NFIB Research Center, December 2020, <https://assets.nfib.com/nfibcom/SBET-Dec-2020.pdf>.

⁴ Holly Wade, *Covid-19 Small Business Survey (15) – PPP, EIDL, the Economy, the Vaccine, and Minimum Wage*, NFIB Research Center, January 28-31, 2021.

functions the way it was intended to and provide sufficient information and customer assistance to small business owners participating in the program.

The Federal Reserve's Main Street Lending Program (MSLP) was also created to help provide financial assistance to small and medium size businesses but was largely ineffective in achieving its goal. The MSLP's loan terms were structured in a way that were too restrictive for most small business owners. The repayment schedule was too short, the minimum loan amount was too high initially, and the interest rate was too high to attract many small businesses to the program. At a time when the EIDL program was struggling with loan backlogs, NFIB had hoped that the MSLP would be able to fill the void, but unfortunately, the program was not easily accessible and the terms were just not attractive to the average small business owner.

There have also been COVID-19 related programs that have made life more difficult for small business owners. The paid sick and family leave mandate enacted within the Families First Coronavirus Response Act, and specifically targeted at small business owners, was challenging for many small business owners. Nearly half of small employers have had employees take COVID-19 related sick leave or family leave, however, only 41% of those have claimed the available tax credit to reimburse those expenses. The terms and conditions of the mandate are complicated and the credit is difficult to claim for many small employers who have to navigate both programs themselves.

Small businesses have also had to do their best to comply with varying state and local public health mandates to keep their employees and customers safe. Depending on the industry, state, and locality, these compliance costs have been expensive for many. However, small business owners still have concerns that they may end up in court if someone contracts coronavirus through no fault of their own. NFIB supports and encourages Congress to enact common-sense COVID-19 small business liability protections to help those that have done everything in their power to protect their employees and customers.

The Path to Small Business Recovery

As stated earlier, about 15% of small businesses report they will have to close their doors if the small business economy does not improve in the next six months. The best path for small businesses to recover is to get as many Americans vaccinated as possible, and quickly, so Main Street can fully reopen. In the mean time, many small

businesses may continue to need economic assistance in the form of grants or tax incentives to survive. The second round of PPP should be helpful to those small businesses struggling the most right now. The EIDL program also remains a sound option for those interested in additional financing.

NFIB finds that there is very little need or interest in small businesses acquiring new forms of debt. According to the most recent NFIB *Small Business Economic Trends* survey,

“Three percent of owners reported that all their borrowing needs were not satisfied (up 1 point). Twenty-six percent reported all credit needs met (up 1 point) and 60 percent said they were not interested in a loan (up 2 points). A net 3 percent reported their last loan was harder to get than in previous attempts (up 1 point). Credit markets have never been friendlier, and the Federal Reserve promises that will continue indefinitely. Add to this the reopening of the PPP program allowing eligible small business owners to access a second forgivable loan, easing demand for additional private sector borrowing. One percent reported that financing was their top business problem (unchanged). The net percent of owners reporting paying a higher rate on their most recent loan was negative 5 percent, down 1 point from November. The average rate paid on short maturity loans was 4.8 percent, up 0.1 percentage points from November. Twenty-six percent of all owners reported borrowing on a regular basis (up 4 points).”⁵

Instead of focusing on new borrowing options to small business owners, NFIB recommends that Congress first should adopt the principle of “do no harm.” Proposals such as those to more than double the federal minimum wage to \$15 per hour, expand paid leave mandates, and create new federal enforcement actions on small businesses will make it even harder for Main Street to recover. Making it more expensive to operate a business will only serve to hamper the ability of small firms to survive the pandemic. Thank you for allowing me the opportunity to testify before you today.

⁵ William C. Dunkelberg and Holly Wade, *NFIB Small Business Economic Trends*, NFIB Research Center, December 2020, <https://assets.nfib.com/nfibcom/SBET-Dec-2020.pdf>.

BROOKINGS

QUALITY. INDEPENDENCE. IMPACT.

Minority-Owned Small Business Trends and Policies in the Wake of COVID-19

Testimony Submitted to:

U.S. House Committee on Financial Services
Subcommittee on National Security, International Development, and Monetary Policy
“Supporting Small and Minority-Owned Businesses Through the Pandemic”

February 4, 2021

Sifan Liu (Senior Research Analyst) and Joseph Parilla (Fellow)
Brookings Metropolitan Policy Program

Thank you, Chairman Cleaver, Ranking Member Hill, and members of the Subcommittee, for the opportunity to submit written materials for the record. This testimony focuses on two basic questions: 1) what is the state of minority-owned small business in America? and 2) how can public policy provide targeted support to minority-owned small businesses to spur a dynamic, equitable recovery from COVID-19?

State of Minority-Owned Small Business in America

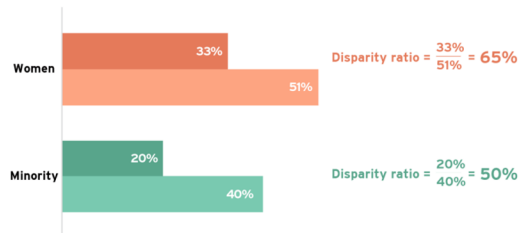
The COVID-19 pandemic has put the economy under historic distress and millions of small businesses at risk.¹ As of January 2021, 40% of small business owners report operating below capacity as compared to a year ago and 69% expected it would take at least four months to return to normal operating levels, if ever.² About 30% of businesses are closed.³ The near-term pressures from the COVID-19 recession have intersected with a second crisis that is longer-standing and equally damaging: the racial disparities in business ownership that undermine the nation’s economic dynamism and exacerbate wealth inequities. Below, we review three unique challenges that minority-owned small businesses currently face.

The first challenge is the continuous and long-standing structural racial disparities in small business ownership and performance. Nationally, people of color represent about 40% of the population, but only 20% of the nation’s 5.6 million business owners with employees. Minority-owned small businesses also have fewer employees, lower profit margins, and higher failure rates.⁴

Importantly, these trends represent structural impediments to starting and scaling businesses, *and do not reflect the inherent entrepreneurial abilities or interests of different groups.*⁵ Several studies indicate that the playing field is uneven for entrepreneurs of color on key factors, including consumer perceptions, access to finance, and social capital. A Brookings analysis found that businesses located in majority-Black neighborhoods receive lower Yelp ratings, and earn less revenue than businesses with similar quality ratings in other neighborhoods.⁶ The Federal Reserve’s 2020 Small Business Credit Survey shows that large banks approve around 67% of loans sought by white small-business owners, 43% of those sought by Latino or Hispanic small-business owners, and just 29% of those sought by Black small-business owners.⁷ Because the enduring impact of structural racism compounds over generations, minority entrepreneurs also have less exposure to business ownership within their families, and lower levels of family wealth to draw from as startup capital or collateral.⁸

FIGURE 1

Women and people of color own businesses at much lower rates than men and non-Latino or Hispanic white individuals



Source: Brookings analysis of the U.S. Census Bureau's 2016 Annual Survey of Entrepreneurs (ASE) and American Community Survey (ACS)

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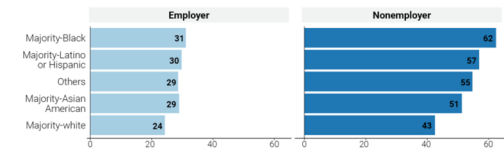
This second challenge is the acute economic disruptions induced by COVID-19 that disproportionately affected minority-owned businesses. These long-standing structural impediments have consequences on the financial health of minority-owned businesses, putting them in a more vulnerable position during economic downturns. Minority-owned small businesses are more likely to operate in retail services, accommodation and food services, and personal care services industries that rely on foot traffic, which were hit hardest from a nationwide lockdown.⁹ In addition, COVID-19 infection rates are higher in communities of color, which coincides with minority-owned business locations.¹⁰ Federal Reserve Bank of New York found that among the counties with highest share of Black-owned businesses, two-thirds were among the top 50 COVID-affected areas in July 2020.¹¹

The monthly-updated Current Population Survey shows that in the first month of the pandemic, active business owners declined by 41% for African-Americans, 32% for Latinos or Hispanics, 26% for Asian-Americans, compared to 17% for white Americans. These temporary losses later bounced back in August for all groups, with the exception of Asian-American businesses, where ownership is still down 20%.¹² For small businesses that have maintained operations, Black-, and Latino- or Hispanic-owned businesses experienced a steeper decline and slower recovery in their cash balances than white-owned businesses, according to a research from the JPMorgan Chase Institute.¹³

The third challenge is the delay and failure in getting federal small business relief to communities of color. While we do not have definitively reliable data on the demographics of PPP loan recipients, a range of evidence strongly suggests that access to PPP was not equal. A matched-pair test conducted in April found that Black business owners in Washington, DC were more likely to be denied PPP loans compared to white business owners with similar application profiles due to outright lending discrimination.¹⁴ Brookings research shows that small businesses in majority-white neighborhoods received PPP loans much more quickly than small businesses in majority-Black and majority-Latino or Hispanic neighborhoods. For sole proprietors, the neighborhood-level gaps were even more significant.¹⁵

Figure 1. PPP loans in majority-minority neighborhoods were approved later than those in majority-white neighborhoods

Average days since PPP application started (April 3) to when loans were approved



Source: Brookings analysis of SBA Paycheck Protection Program Loan Level Data and American Community Survey 2018 5-Year Data

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A new NBER report released last month indicates that the second tranche of PPP reached small businesses in underserved and majority-minority communities,¹⁶ but these delays are likely costly to businesses in those communities that operate on very short cash buffers.¹⁷

In the absence of reliable demographic data at the national scale, local surveys of business owners are also revealing. A recent survey by the New Economy Initiative of microbusiness owners in Detroit found that 64% of Black respondents who applied for PPP loans were approved, compared to 94% of businesses in Southeast Michigan. Moreover, many business owners are skeptical that existing small business relief solutions will work for them. One leader of a neighborhood business organization in Detroit summarized the dynamic: “There hasn’t been an appetite for PPP from many of the businesses in the neighborhood. They are anxious about it being a loan and then getting stuck to pay it back if they have to let employees go. Even if they try to fix it up, there is still a lot of mistrust.”¹⁸

Policy Considerations for Supporting Minority-Owned Small Businesses

Against the backdrop of the three challenges above, this section concludes with five policy considerations to support minority-owned businesses in the wake of COVID-19.

1. **Ensure existing emergency relief is broadly accessible.** Mitigating small business failures will be critical in bridging towards a strong economic recovery. Absent broad and accessible relief, large-scale small business destruction will take a tremendous toll on the nation’s workforce, physical and intangible capital stock, and the physical landscape of local communities.¹⁹ If relief is not accessible to minority-owned businesses, then business failures will disproportionately concentrate in minority communities, which in turn negatively impacts wealth accumulation, social mobility, and community development.²⁰ In the early part of 2021, Congress and the relevant agencies made welcome modifications in the PPP and certain elements of the EIDL program to better support underserved businesses. For PPP, reserving initial access to round three for Community Financial Institutions (CFIs), including Community Development Financial Institutions (CDFIs), Minority Depository Institutions (MDIs), Certified Development Companies (CDCs), and Microloan Intermediaries helped advance the agency’s ongoing efforts to reach underserved and minority small businesses.²¹ For EIDL, a second round of grants will only be available to businesses in low-income communities whose revenue dropped at least 30% in 2020.²²
2. **Consider new, additional pathways for future relief.** There are additional approaches the federal government could take to ensure this mitigation phase is as effective and inclusive as possible. Small business relief could be better targeted to address the specific challenges related to racial disparities in capital access. Given the challenges around reaching minority business owners in the first round of relief and the worries from those businesses about taking on more debt through PPP loans, direct grants to minority-owned businesses could be provided through a distribution network of community-based organizations via the Minority Business Development Agency (MBDA). Similarly, the

proposed RELIEF for Main Street Act would provide \$50 billion in loans and grants via a distributed network of local communities, building on the lending infrastructure that local relief funds established in the spring to target microbusinesses and provide them with technical assistance (in addition to capital).²³ Another way to channel funds to decisionmakers more proximate to the small business challenges of local communities would be to reinstate the State Small Business Credit Initiative, which would devolve capital to state-led funds to be distributed to small businesses. Originally used in the wake of the Great Recession, SSBCI's program evaluation found that it gave states flexibility to tailor their small business support strategies to the particular needs of their state, with 43% of the transactions invested in minority or other underserved communities.²⁴

3. **Experiment with new partnerships that broaden capital access to smaller small businesses.** A federal entrepreneurship strategy will also need to intentionally reflect the fact that minority entrepreneurs are more likely to operate as sole proprietorships or very small microbusinesses (under 10 employees). Yet, traditional SBA loan guarantees are not targeted to these microbusinesses. Over the past couple decades, large banks have been less likely to operate in the small-loan space due to low profit margins,²⁵ and small banks that traditionally served local small businesses have declined due to a wave of bank consolidations since the financial crisis.²⁶ This has a disparate impact at the neighborhood level. According to the Institute for Local Self-Reliance, since 2006, communities of color have lost more small community banks than other communities.²⁷ Online lenders have stepped up to fill the gap with internet-based technologies that allow for more efficient loan processing and lower transaction costs, albeit with higher interest rates.²⁸ The SBA could broaden the reach of its 7(a) loan program by partnering with a fintech lender that can issue loans at much lower costs. Because microbusiness lending is riskier, the federal government could offer loan loss guarantees to fintech lenders, who as a result could offer underserved business owners lower interest rates. At the same time, the federal government should enhance investment in lenders serving communities of color, including a significant increase in the CDFI Fund.
4. **Invest in the success of new “necessity” entrepreneurs.** National unemployment remains high, especially among minority workers.²⁹ Previous research has found that unemployed workers are more likely to start a business to avoid prolonged unemployment and financial hardship.³⁰ Yet, starting and growing a business is an extremely complex, iterative undertaking, and “necessity” entrepreneurs overwhelmingly start that journey with less financial and social capital. Currently, the Department of Labor provides small grants through Self-Employment Assistance (SEA) programs, which allow unemployed workers to receive a weekly self-employment allowance while learning necessary skills to set up their businesses. State SEA programs usually partner with SBA Small Business Development Centers (SBDC) to provide counseling, training, and technical assistance to small business owners through its local branches. A 2017 evaluation of the SEA program reported positive outcomes for participants. Yet, due to fluctuations in available funding and legislative gridlock, only six states had an active program at the end of 2015.³¹ The SBA should consider expanding funding and services at SBDCs to partner with local workforce agencies to reach potential “necessity” entrepreneurs.
5. **Invest more federal resources in building productive, inclusive local entrepreneurship ecosystems.** In addition to providing capital and technical assistance, federal policy needs to better support the development of inclusive local entrepreneurship ecosystems. Small businesses rarely can succeed in isolation, and are more likely to grow when surrounded by other entrepreneurs, investors, and customers who are open to collaboration and knowledge sharing.³² So much of entrepreneurial success is rooted in the in-person social exchange of ideas, information, and resources. Yet, currently the SBA and Economic Development Administration together invest less than \$40 million annually in supporting local small business ecosystem-building, a tiny sum compared to the \$23 billion in loans that the SBA provided in FY2019. Building on pilots such as the SBA's Growth Accelerator Fund

Competition, the federal government could increase its investments in those institutions that support local entrepreneurial ecosystems significantly. Importantly, minority entrepreneurs are usually overlooked or underserved in local entrepreneurial ecosystems, and it would require proactive interventions to overcome existing systematic barriers.³³ As federal policy seeks to expand entrepreneurship ecosystems, it must design them in ways that prioritize racial equity. Given the importance of inclusive ecosystem-building as an economic strategy, the Biden administration and Congress should fund a new Minority Business Accelerator (MBA) challenge grant program that supports the creation of new accelerators and existing ones, replicating promising models like the Cincinnati Minority Business Accelerator.³⁴

Conclusion

Because the nation is facing a massive potential disruption to a well-known status quo, the COVID-19 small business crisis has inspired a historic, necessary policy response. But structural racial exclusion that limits entrepreneurship is no less insidious than COVID-19's impact on small businesses, and because it is a status quo that's been built up over decades, there has not been the same urgency to address it—even if closing these disparities could result in a fairer, more productive U.S. economy. Without addressing this issue intentionally, America's recovery from COVID-19 will be slower, more incomplete, and more inequitable.

The views expressed in these written remarks are those of the authors alone and do not necessarily represent those of the staff, officers, or trustees of the Brookings Institution.

¹ Robert Fairlie, "The Impact of COVID-19 On Small Business Owners: Evidence of Early-Stage Losses from the April 2020 Current Population Survey" (Cambridge, MA: National Bureau of Economic Research Working Paper Series, 2020).

² Brookings analysis of U.S. Small Business Pulse Survey.

³ Brookings analysis of Opportunity Insights data.

⁴ Fairlie, Robert W., and Alicia M. Robb. *Race and entrepreneurial success: Black-, Asian-, and White-owned businesses in the United States*. MIT Press, 2010.

⁵ Jonathan Rothwell, "No Recovery: An Analysis of Long-Term U.S. Productivity Decline", Gallup, December 6, 2016

⁶ Andre Perry, Jonathan Rothwell, and David Harshbarger. "The devaluation of assets in black neighborhoods." (Washington: Brookings Institution, 2018)

⁷ 2020 Small Business Credit Survey, available at <https://www.fedsmallbusiness.org/survey/2020/report-on-employer-firms>

⁸ *ibid.*

⁹ Sifan Liu and Joseph Parilla, "Businesses owned by women and minorities have grown. Will COVID-19 undo that?" (Washington, Brookings Institution, 2020).

¹⁰ Adhikari, Samrachana, et al. "Assessment of community-level disparities in coronavirus disease 2019 (COVID-19) infections and deaths in large US metropolitan areas." *JAMA network open* 3.7 (2020): e2016938-e2016938.

¹¹ Mills, Claire Kramer, and Jessica Battisto. "Double Jeopardy: COVID-19'S Concentrated Health and Wealth Effects in Black Communities." Federal Reserve Bank of New York (2020).

¹² Robert Fairlie's analysis of CPS data, available at <https://people.ucsc.edu/~rfairlie/current/>, data retrieved on February 2, 2020

¹³ Farrell, Diana, et al. 2020. *Small Business Financial Outcomes during the Onset of COVID-19*. JPMorgan Chase & Co. Research. June.

¹⁴ Anneliese Lederer et al., "Lending Discrimination within the Paycheck Protection Program" (Washington: National Community Reinvestment Coalition, 2020).

¹⁵ Sifan Liu and Joseph Parilla, "New data shows small businesses in communities of color had unequal access to federal COVID-19 relief" (Washington: Brookings Institution, 2020).



FEDERAL RESERVE BANK OF MINNEAPOLIS

Pursuing an economy that works for all of us

February 3, 2021

The Honorable Maxine Waters
Chairwoman
U.S. House Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable Jim Himes
Chair, Subcommittee on National Security,
International Development, and Monetary Policy
U.S. House Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable Patrick McHenry
Ranking Member
U.S. House Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable French Hill
Ranking Member, Subcommittee on National Security,
International Development, and Monetary Policy
U.S. House Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairwoman Waters, Ranking Member McHenry, Subcommittee Chair Himes, and Ranking Member Hill,

Thank you for providing the Center for Indian Country Development (CICD)¹ at the Federal Reserve Bank of Minneapolis the opportunity to share information on how a reestablished State Small Business Credit Initiative (SSBCI) program could better meet small business needs in Indian Country. CICD, a research institute dedicated to assisting tribes to reach their full economic potential, conducts economic research on tribal economies. Since the beginning of the COVID-19 pandemic, CICD has tracked the specific economic impacts to tribal businesses and Native American workers. CICD hopes its insights and recommendations are informative to you as the House Financial Services Committee contemplates reestablishing the SSBCI and ensuring equitable access to this critically important economic recovery tool.

Indian Country has experienced more severe impacts of the pandemic across almost every measure.

At various points since March 2020, tribal communities have had the highest COVID-19 infection rates per capita in the country. In August, the Centers for Disease Control and Prevention (CDC) reported that compared to White non-Hispanics, Native Americans had experienced nearly triple the rate of cases; 5.3 times more hospitalizations per capita and nearly 1.5 times more deaths per capita. The CDC reported similar results in December, further evidencing the continued and disproportionate public health impact COVID-19 is having in Indian Country.²

Job losses have been more severe, hitting service sector workers the hardest.

Prior to the COVID-19 pandemic, Native American employment nationwide was concentrated in lower-wage jobs in the service sector. Some tribes had more than 30 percent of their tribal members in service sector occupations—almost double the national average of 18 percent.³ As state and tribal lockdowns were implemented and tribal gaming operations closed their doors in April, Native American unemployment rates spiked to 26 percent, higher than that of any minority population in the country.⁴ In a September 2020 CICD survey, 60 percent of tribal-government-owned enterprises reported employment reductions of at least 20 percent. As of December 2020, Native American unemployment rates had recovered to near pre-pandemic levels, yet the Native American labor force

¹ <https://www.minneapolisfed.org/indiancountry>.

² <https://www.cdc.gov/mmwr/volumes/69/wr/mm6949a3.htm>.

³ <https://www.minneapolisfed.org/article/2020/covid-19-and-indian-country-early-snapshot-reveals-disproportionate-economic-exposure-and-uncertainty>.

⁴ <https://www.minneapolisfed.org/article/2020/native-employment-during-covid-19-hit-hard-in-april-but-starting-to-rebound>.

participation rate still hovered around 57.5 percent⁵—lower than that of any minority population in the nation—indicating many Native workers are likely riding out the pandemic from the sidelines.

Tribal enterprises experienced steep revenue losses and capital and credit strains.

State and tribal closures in spring 2020 reportedly shut down 100 percent of tribal gaming operations nationwide, and other tribal enterprises, such as tribal energy companies, suffered severe revenue losses. Even after the reopening of many tribal operations in the summer, a September CICD survey found over 50 percent of tribal enterprise respondents reported revenue declines of 20 percent or more to date, which in turn resulted in tribal government revenue declines⁶ and reduced delivery of essential government services to tribal communities.⁷ In all the CICD surveys conducted in 2020, tribal enterprises reported significant unmet capital needs that continue to dampen economic recovery in Indian Country.

Tribal-member-owned small businesses have also suffered during the pandemic.

In an August CICD survey of mostly tribal-member-owned businesses,⁸ only 20 percent of the 400 respondents reported having enough cash on hand, which includes financial assistance and loans, for more than three months of operations. Only 15 percent of respondents received Economic Injury Disaster Loans assistance and 22 percent received a Paycheck Protection Program (PPP) loan. CICD conducted further analysis of the PPP in November 2020 and found that just 12 percent of businesses in census tracts with greater than 50 percent Native population received PPP loans, much less than the national average of 20 percent.⁹

All this is to say that tribal businesses, either owned by tribal governments or by tribal members, and Native American workers are suffering, and many have been left out of the nation's emergency relief efforts.

Considerations to support Indian Country participation in the reestablishment of SSBCI

Reestablishing the SSBCI program is precisely the type of recovery measure that is needed to support tribal small businesses. Much can be learned from analyzing tribal inclusion in the prior SSBCI program. Using publicly available SSBCI loan data, CICD investigated the degree of inclusion of Indian Country borrowers. Only 0.3 percent of loans were made to borrowers in or near Indian Country. Focusing on the dollar amount of SSBCI loans, CICD found that 0.4 percent of total funds went to borrowers in or near Indian Country.¹⁰ Given the lack of tribal inclusion in the previous SSBCI program, additional actions should be considered to reach Indian Country borrowers:

(1) Include tribal governments as eligible government applicants under the definition of “state”

Through treaty rights and Supreme Court holdings, tribes have a unique political status with the U.S. government. The federal government engages with tribes in a government-to-government relationship, and specific inclusion of tribal governments in the SSBCI reauthorization would be a clear act by the federal government to deliver on its trust responsibilities to tribes. With this addition, tribal governments would join the other eligible government applicants—states, U.S. territories, and certain municipalities—as eligible applicants.

(2) Include a codified definition of “tribal governments”

CICD recommends that the reauthorization legislation incorporate the definition of “tribal governments” codified in 25 U.S. Code §5131, which includes a list of all federally recognized tribes in the U.S. eligible for

⁵ <https://www.bls.gov/cps/>.

⁶ Tribal enterprises allocate varying amounts of revenue to their tribal governments.

⁷ <https://www.minneapolisfed.org/article/2020/tribal-entities-remain-resilient-as-covid-19-batters-their-finances>.

⁸ <https://www.minneapolisfed.org/article/2020/indian-country-small-businesses-face-strong-headwinds-in-covid-19-recovery>.

⁹ <https://www.minneapolisfed.org/article/2020/paycheck-protection-program-leaves-some-businesses-in-tribal-areas-behind>.

¹⁰ These estimates are necessarily imperfect because SSBCI loans can only be geographically identified by ZIP Code, which does not map perfectly to the boundaries of tribal areas. We counted a loan as occurring “in or near Indian Country” if at least 50 percent of the ZIP Code’s area overlapped with a tribal area. Using a more inclusive definition—any overlap above 0 percent—we calculate that 2.8 percent of loans (and 3.3 percent of total loaned funds) went to borrowers in or near Indian Country.

special programs and services provided by the federal government. This list is updated annually at the end of the calendar year. There are currently 574 federally recognized tribes in the U.S.

(3) Provide a minimum allocation for tribal governments

In 2010, the SSBCI program provided for a minimum allocation of 0.9 percent of program funds to states. By incorporating tribal governments into the reauthorization of the SSBCI program, the Committee could consider providing a specified, collective, minimum allocation to tribal governments, to ensure the program reaches tribal borrowers.

(4) Establish a multi-tribal government participation program

Given the anticipated capacity constraints for some individual tribes to administer their own SSBCI program, CIRD recommends an option be considered for tribal governments to participate in a multi-tribal government participation program, similar to what is being contemplated in the legislation for states.

(5) Enhance program data collection and reporting

In addition to the required information to be reported annually by program participants, CIRD recommends the Department of the Treasury collect and make available to the public the following information:

- Names of participating government entities;
- Race, ethnicity, and tribal affiliation for all participating borrowers; and
- More-precise geographic detail for SSBCI borrowers than was previously available to the public.

(6) Include tribal business concerns in definition of “minority-owned business”

Tribal enterprises, also known as tribal business concerns, play a significant role in Indian Country economies, creating jobs and allocating revenues to tribal governments. They are often the largest employers in tribal communities and provide local goods, services, and critical economic infrastructure for tribal and surrounding communities. They share the same credit access challenges that tribal-member-owned businesses face. CIRD recommends tribal enterprises that have 500 or fewer employees or that satisfy the program requirements for number of employees be included in the program’s definition of “minority-owned business.” The PPP utilized the definition of “tribal business concern” codified in U.S. Code 657a(b)(2)(C) to establish eligibility for tribal enterprises. A similar approach to the PPP would allow for a greater pool of potential borrowers in Indian Country.

(7) Deliver technical assistance to participating tribal governments

Given the complexity and capacity needed to successfully administer an SSBCI program, CIRD recommends that technical assistance be specifically and sufficiently delivered to tribal government participants by technical assistance entities approved by the Department of the Treasury.

(8) Waive private leverage ratio for participating tribal governments

As indicated in the 2014 SSBCI revised program guidelines, for other credit support programs to be eligible for federal funding, they must demonstrate a “reasonable expectation” to generate small business lending equivalent to at least 10 times the federal contribution amount.¹¹ Given the capital constraints of lenders—and, in particular, Native American Community Development Financial Institutions—that serve tribal communities, CIRD recommends the private leverage ratio requirement be waived for tribal government programs.¹²

¹¹ <https://www.treasury.gov/resource-center/sb-programs/Documents/SSBCI%20Policy%20Guidelines.pdf>

¹² <https://www.minneapolisfed.org/research/cird-working-paper-series/findings-from-the-2017-native-cdfi-survey-industry-opportunities-and-limitations>

The disproportionate public health and economic impacts of the pandemic on Indian Country make the road to economic recovery challenging for tribes. Tribal government inclusion in the SSBCI program will go a long way in providing the credit and technical assistance to stabilize tribal economies. The CIDC appreciates the opportunity to share insights and provide recommendations. Should you have questions or need additional information, please do not hesitate to reach out to me at casey_lozar@mpls.frb.org.

Lem'imnts,

A handwritten signature in black ink, appearing to read 'CW Lozar', with a long horizontal stroke extending to the right.

Casey Lozar
(Confederated Salish and Kootenai Tribes)
Director, Center for Indian Country Development
Federal Reserve Bank of Minneapolis

Center for Responsible Lending

Statement for the Record

Hearing on “How Invidious Discrimination Works and Hurts: An Examination of Lending Discrimination and Its Long-term Economic Impacts on Borrowers of Color” Before the Subcommittee on Oversight and Investigations, Committee on Financial Services, U.S. House of Representatives

February 4, 2021

The Center for Responsible Lending appreciates this opportunity to submit a statement for the record for today’s hearing.

CRL shares concerns about the profound disparities in how business owners fund their enterprises. For small businesses to thrive and grow into larger enterprises they need to be able to access capital. There is now overwhelming evidence that this is far more difficult for businesses owned by persons of color than it is for white-owned businesses. For example, research conducted by a number of Federal Reserve banks has found that in the previous five years, 46% of white-owned businesses with employees accessed credit from a bank compared to just 23% of Black-owned employer firms and 32% of Latino-owned employer firms. Lacking access to credit, 28% of Black owners and 29% of Latino owners relied on personal funds as the primary funding source for their business, compared to just 16% of white business owners.¹

In large part, these disparate results are attributable to overtly discriminatory practices by lenders. A recent study by the National Community Reinvestment Coalition makes this clear: it found that Black and Hispanic testers when applying for loans were required to produce more documentation to support their loan application and received less information about fees, and less friendly service when visiting a small business lender.² But facially neutral practices with disparate effects are also important contributors to the difficulty that Black and Latino business owners have in obtaining credit, as was most recently demonstrated by the Paycheck Protection Program which, by relying on banks as its distribution mechanism, gave a large leg up to existing bank customers, who are disproportionately white, at the expense of businesses owned by persons of color.³ We have appended our June testimony before the House Small Business Committee which provides additional background about the small business landscape and the first two rounds of the Paycheck Protection Program (PPP) specifically.

¹ “Small Business Credit Survey: Report on Employer Firms,” 2020.

<https://www.fedsmallbusiness.org/medialibrary/FedSmallBusiness/files/2020/2020-sbcs-employer-firms-report>.

² “Disinvestment, Discouragement and Inequity in Small Business Lending.” National Community Reinvestment Coalition, 2019. <https://ncrc.org/wp-content/uploads/2019/09/NCRC-Small-Business-Research-FINAL.pdf>.

³ Granja, Makridis, Yannelis, Zwick, *Did the Paycheck Protection Program Hit the Target?*, <https://bfi.uchicago.edu/working-paper/did-the-paycheck-protection-program-hit-the-target/>.

Because of these disparities, we have joined with many civil rights, consumer, and small business groups to urge Congress to include direct grant aid for small businesses in any future relief bills. Grant aid, not loans, are desperately needed for the most vulnerable small businesses, many of which were already in a financially precarious position prior to this crisis. Further, if recovery is to be inclusive direct funding and technical support for individuals to start new businesses will also be needed.

At least \$50 billion small business relief dollars should be allocated for the purpose of supporting small minority-, women-, and veteran-owned businesses that have been neglected or otherwise underserved by the original Paycheck Protection Program, the Economic Injury Disaster Loan program, or any other federal assistance program. It is imperative that Congress provide support to the most vulnerable small businesses in our nation that have suffered discrimination in capital markets through direct federal, state, and local policies, or through disparate impact.

There are many mechanisms which could be used to provide this direct grant assistance. The IRS, FEMA, the SBA EIDL program, or even through already approved PPP lenders are options. A reauthorized State Small Business Credit Initiative could also be a great mechanism for providing this much needed relief and support. However, we request a specified allocation for grants, rather than a new loan program that is likely to continue the trends we have seen in PPP and that lenders are unlikely to take up.

Grants should be equivalent to 1.5 times the business' annual revenues as reflected in its preceding annual tax filing, but not to exceed \$100,000. Small businesses must meet the eligibility criteria outlined below.

For existing businesses, grant funds may be used to defray the cost of payroll, rent, mortgage principal and interest payments, equipment lease or loan payments. Funds may also be used for existing operational costs as well as any equipment required to comply with new health restrictions. For new businesses, the grant aid will provide the start-up capital needed to launch their business.

Eligibility for the grant program should be limited to the most vulnerable businesses and entrepreneurs, those that qualify as "socially and economically disadvantaged" individuals as defined in the Small Business Act. For existing businesses that meet the definition, they must also have been in business for at least a year, have no more than 10 employees, be located in an LMI census tract, employ personnel residing in the LMI area where it is located, and not have received funding through equity, bond, or other capital investment market during prior year. Publicly traded corporations should also be ineligible.

It is a truism that small businesses are a critical engine of economic opportunity and growth. This is especially true for communities of color: businesses owned by people of color account

for more than 8.7 million jobs at a total annual payroll of \$280 billion, and these businesses generate \$1.3 trillion in revenue.⁴

Fostering economic security is more essential than ever in the current moment. We appreciate your efforts to shed light on the needs of businesses owned by people of color and ensure that relief and support reaches all businesses and communities. The only way to ensure real relief reaches the most vulnerable businesses is through targeted grant aid. We look forward to working with you to craft a program, through SSBCI or some other means, to achieve this goal.

Sincerely,

Center for Responsible Lending

⁴ 2018 Annual Business Survey

APPENDIX

Testimony of Ashley C. Harrington

Federal Advocacy Director and Senior Counsel

Center for Responsible Lending

Before the United States House Committee on Small Business

“Paycheck Protection Program: Loan Forgiveness and Other Challenges”

June 17, 2020

I. Introduction

Good afternoon Chairwoman Velazquez, Ranking Member Chabot and Members of the United States House Committee on Small Business. Thank you for the opportunity to provide testimony today about the need to address the challenges posed by the Paycheck Protection Program (PPP). My name is Ashley Harrington, and I am Federal Advocacy Director and a senior policy counsel at the Center for Responsible Lending (CRL). CRL is a non-profit, nonpartisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices. The organization is an affiliate of Self-Help, one of the nation's largest community development financial institutions. For forty years, Self-Help has focused on creating asset-building opportunities for families of color, women, rural residents and low-income people and communities, primarily through financing safe, affordable home loans and small business loans. In total, Self-Help has provided more than \$7 billion in financing to 87,000 homebuyers, small businesses and non-profit organizations and serves more than 80,000 mostly low-income families through more than 40 retail credit union branches in North Carolina, California, Florida, Illinois, South Carolina, Virginia, and Wisconsin.

CRL and Self-Help have seen firsthand the potential for the PPP to serve as a lifeline to small businesses as they navigate the current economic crisis. As a long-time SBA lender, Self-Help began accepting Paycheck Protection Program (PPP) applications on April 6. As of June 13, Self-Help has received SBA approval for \$170 million in loans to 1,395 small businesses and non-profits across the country. These loans have been a lifeline for our borrowers, allowing them to continue employing over 18,000 people through the current economic uncertainty. Self-Help's PPP efforts have focused on assisting underserved applicants: by dollar amount, fifty-three percent of the loans are to small businesses and entities led by people of color, and sixty-seven percent are to non-profits. With a median loan amount of less than \$28,000, these loans primarily serve truly small businesses: sixty-five percent of the loans are under \$50,000, and eighty-three percent are under \$150,000.

Preserving businesses owned by people of color is paramount to an equitable recovery. Employer businesses owned by people of color are a substantial source of income and employment—accounting for more than 8.9 million jobs at total annual payroll of \$295 billion, and \$1.4 trillion in revenue.¹ Yet many of these businesses as well as non-employer or self-employed businesses were likely excluded from the first round of funding in the PPP. Business ownership is also a proven mechanism for wealth-building, with economic benefits that extend beyond the individual business to the entire community. Ensuring that federal small business relief works for small businesses owned by people of color is essential to an inclusive economic recovery.

As a result of the devastating economic impacts of an already catastrophic public health emergency, Congress rightfully moved quickly to provide some of the desperately needed financial support to families and businesses. This crisis comes even as the effects of the last recession continue to be felt in many communities, especially communities of color. The Great Recession resulted in more than 8.7 million lost jobs, 8 million homes foreclosed, and 500 community banks shuttered.² This does not include the non-direct financial harms of the crisis, such as the estimated 95 million households who lost

¹ 2018 Annual Business Survey

² Calhoun, Michael. "Lessons from the Financial Crisis: The Central Importance of a Sustainable, Affordable and Inclusive Housing Market." *Brookings* (blog), September 5, 2018. <https://www.brookings.edu/research/lessons-from-the-financial-crisis-the-central-importance-of-a-sustainable-affordable-and-inclusive-housing-market/>.

home equity due to surrounding foreclosures; this lost wealth totaled \$2 trillion with \$1 trillion coming from communities of color.³ Just as the last recession widened the racial wealth gap even further, we are already on track to see disparities drastically increase because of COVID-19.

My testimony today will:

- Provide an overview of the disproportionate economic impacts of the COVID-19 health crisis.
- Discuss issues with the structure and implementation of the PPP and how they served to limit access for the smallest businesses and businesses owned by people of color.
- Highlight the challenges posed by the current requirements to access PPP forgiveness.
- Provide policy recommendations to ensure 1) the remaining PPP funds reach the smallest businesses and businesses owned by people of color; 2) the forgiveness process is streamlined and workable for the smallest businesses and their lenders; and 3) equitable small business relief, beyond the PPP, is available as we enter the recovery period.

II. The Economic Effects of the COVID-19 Public Health Crisis Have Fallen Disproportionately on Communities of Color

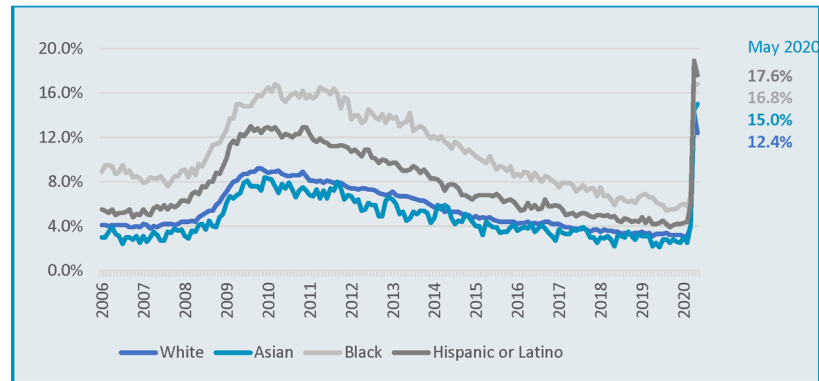
A. The Disproportionate Economic Effects of the COVID-19 Public Health Crisis

Unemployment rates have skyrocketed, well exceeding the rates seen during the financial crisis, but they have been highest for communities of color. In May 2020, unemployment hit 17.6% for Hispanic or Latino workers, 16.8% for Black workers, 15.0% for Asian workers and 12.4% for white workers.⁴ The recent spike in unemployment, however, masks the persistently high rates in these communities, many of which took years to return to even pre-financial crisis levels. The 2007 pre-financial crisis lowest unemployment rate among Black workers was 7.6% in August 2007, a rate that was only slightly lower than the peak financial crisis unemployment rates among white workers of 9.2% in October 2009 (Figure 1). The severity of the current unemployment crisis can also be measured in the rate of increase. The lowest pre-financial crisis unemployment rates occurred in early- to mid-2007, with the peak crisis unemployment rates in most communities not occurring until the end of 2009, nearly two and a half years later. In contrast, in 2020, unemployment figures by race and ethnic group jumped between 149% and 255% from March 2020 to April 2020 (Figure 1).

Unlike the last financial crisis and accompanying unemployment levels, this unemployment rate increase and recession are driven by federal and state policies effectuated in response to a health pandemic. As such, the federal and state response must equitably restore and make whole those who are disproportionately impacted. It is imperative that we take steps now to make sure relief and recovery efforts reach all communities.

³ Bocian, Debbie Gruenstein, Peter Smith, and Wei Li. "Collateral Damage: The Spillover Costs of Foreclosures." Center for Responsible Lending, October 2012. <https://www.responsiblelending.org/mortgage-lending/research-analysis/collateral-damage.pdf>.

⁴ Bureau of Labor Statistics Current Population Survey, Table A-2 and A-3.

Figure 1. Monthly unemployment rate from 2006 to present, seasonally adjusted

Source: Bureau of Labor Statistics Current Population Survey, Table A-2 and A-3.

B. The Impact of the Crisis on Small Businesses

The effect of the crisis on small businesses has been profound—more than half of small businesses said the crisis has had a large negative effect on their businesses and 50.3% of small businesses said they have had a decrease in operating revenues in the last week. In late April, temporary closings impacted 41.5% of small businesses, and 26.5% were impacted in late May. These impacts were far worse for some hardest-hit sectors, including education, foodservice and accommodations, and recreation.⁵

The crisis has impacted industry sectors differently, with widely varying responses to two key measures of hardship measured by the U.S. Census Small Business Pulse Survey. For example, small business owners in the accommodation and food service sector were 15 times more likely to say that the crisis has had a large negative effect on their business than owners of utilities. Variation is likely due to the extent that the business is subject to a temporary shutdown order or other factors that have resulted in a steep decline in revenue. Industry sectors with higher than average ownership by people of color averaged higher response rates to two key measures of hardship, however. On average, 50.7% of business owners in sectors with above-average ownership by people of color said that the crisis had a large negative impact on their business compared to 34.3% of business owners in sectors with below average ownership by people of color. Likewise, 12.4% of business owners in sectors with above-average ownership by people of color said that their businesses were unlikely to return to a normal level of operations relative to one year ago compared to 7.5% of business owners in sectors with below-average ownership by people of color (Appendix A).⁶

C. Federal Relief for Small Businesses was Quick but Inequitable

⁵ "Small Business Pulse Survey – May 31 to June 6," June 11, 2020. <https://portal.census.gov/pulse/data/#data>. The survey target population was all nonfarm, single nonfarm, single-location employer businesses with between 1-499 employees and receipts of \$1,000 or more in the 50 states, District of Columbia, and Puerto Rico. Some industries were excluded, a complete list is provided in the survey methodology available at <https://portal.census.gov/pulse/data/#methodology>. The Small Business Pulse Survey may be subject to non-response bias, as businesses that have closed due to COVID-19 may not be receiving the invitation to participate and unable to respond.

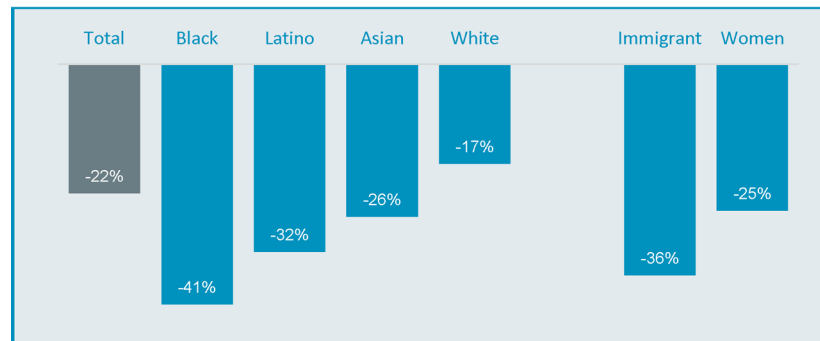
⁶ See "Small Business Pulse Survey Questionnaire." Small Business Administration. Accessed June 14, 2020. <https://www.census.gov/content/dam/Census/data/experimental-data-products/small-business-pulse-survey/small-business-pulse-survey-questionnaire.pdf>.

One of the largest economic support components of the federal response to this pandemic has been the PPP, representing a \$670 billion investment in small businesses which serve as the backbone to the American economy. According to the Small Business Administration (SBA), as of June 12, 2020, the program has dispersed 4.6 million loans totaling over more than \$512 billion.⁷ However, despite this substantial investment, it is clear that many small businesses have not been able to access this vital relief.

At the outset of the program and during the first round of funding from April 3 to April 16, 2020, it was clear that structural inequities were built-in to the administration of the program, the application process, and the fee structure. These structural inequities made it extremely difficult for small businesses—and particularly businesses owned by people of color—to qualify for assistance or receive it in time to save their businesses and the jobs of the employees that depend on them. The expected effects of these policies have already borne out.

Using data from the April 2020 Current Population Survey, recent research found that the number of active business owners in the United States decreased by 3.3 million or 22 percent from February to April 2020. This decline was the largest on record and spanned nearly all industries. Business owners of color, women-owned businesses, and business owned by immigrants were especially hard hit. Black and Latino business owners declined by 41% and 32%, respectively. Asian business owners dropped by 26%. Active white business owners, comparatively, declined by 17%. Immigrant business owners declined by 36%, and women business owners declined by 25%.⁸

Figure 2. Active businesses owners of color declined sharply since February



Source: Fairlie, Robert. "The Impact of Covid-19 on Small Business Owners: Evidence of Early-Stage Losses from the April 2020 Current Population Survey."

As businesses of color struggle to get the same access to federal relief dollars as white businesses, they are busy keeping their businesses alive just as businesses all across this country are doing. As Black

⁷ "Paycheck Protection Program (PPP) Report Approvals through 06/12/2020." Small Business Administration. Accessed June 16, 2020. https://www.sba.gov/sites/default/files/2020-06/PPP_Report_20200612-508.pdf.

⁸ Fairlie, Robert. "The Impact of Covid-19 on Small Business Owners: Evidence of Early-Stage Losses from the April 2020 Current Population Survey." Stanford Institute for Economic Policy Research, May 23, 2020. <https://siepr.stanford.edu/research/publications/impact-covid-19-small-business-owners-evidence-early-stage-losses-april-2020>.

businesses owners and other business owners of color innovate, re-organize, and work tirelessly to be successful, just as they have done despite years of marginalization, they will not have as much aid in their recovery as white-led businesses who benefitted from billions of dollars of relief. We must collectively work to ensure the entrepreneurial spirit of this nation's businesses owners is fully supported and that support does not fall along the same lines of historical discrimination for communities of color.

III. The structure and implementation of the Paycheck Protection Program continue to disadvantage to smaller businesses, including the self-employed. Businesses of color were more likely than White-owned businesses to be disadvantaged by the structural limitations built into the PPP program.

Several issues were baked into the structure of the PPP from its inception and launch. Minority-owned small businesses, already hardest hit by the pandemic, were also hardest hit by these structural limitations. To fully understand the impact of the inequities, it is imperative to have a full picture of the make-up of small businesses in this country and how ownership and success is directly tied to historic exclusionary policies and ongoing racial discrimination.

Businesses owned by people of color are likely to have fewer employees and less revenue than white-owned businesses. As a result, they were less likely to qualify for larger loans that would yield the higher fees that would make them a priority for lenders at the outset of the program. Businesses owned by people of color are even more likely to have no employees, putting them at an even greater disadvantage to larger businesses that could garner higher fees. Further, businesses of color have historically lacked access to SBA loans and credit generally, just as individuals and communities of color writ large. Thus, by creating a program that relied on traditional mainstream financial institutions as its intermediary, it effectively ensured that business owners of color were likely to face barriers in accessing critical PPP loans. Other exclusionary and administrative hurdles also resulted in long delays in the distribution of funding and small businesses and businesses owned by people of color had to wait to receive critical PPP loans to retain their employees and stabilize their businesses. These unnecessary delays amount to perilous pressures for the smallest of businesses and businesses of color in particular during a period of economic uncertainty coupled with very real dual public health emergencies of COVID-19 and racism.

A. The PPP fee structure heavily discourages small loans to smaller businesses and non-employer firms. Businesses owned by people of color are likely to have fewer employees, less revenue, and to lack a relationship with a commercial lender.

The PPP fee structure heavily incentivizes loans to larger firms that can garner higher fees. PPP loans are capped at 2.5 times average monthly payroll, resulting in smaller maximum loan amounts for very small businesses, businesses employing lower-wage workers, and non-employer businesses. Lenders earn an origination fee equal to 5% of the loan balance for loans under \$350,000, 3% for loans between \$350,000 and \$2,000,000, and 1% for loans above \$2,000,000. For a loan of \$25,000, a lender would make just \$1,250, while the \$10 million loan given to Shake Shack and later returned, would have

garnered \$100,000 in fees.⁹ This fee structure created a powerful incentive to make larger loans to larger firms and put very small businesses, businesses in critical but lower-paid sectors, and non-employer businesses at a distinct disadvantage.

Businesses headed by people of color are less likely to have employees, have fewer employees when they do, and have less revenue compared to white-owned businesses. These disparities are the result of structural inequities resulting from less wealth compared with whites who were able to accumulate wealth with the support of public policies. White-owned businesses are twice as likely to be employers and hire 50% more employees than businesses owned by people of color.¹⁰ This made businesses of color less likely to garner the higher lender fees that would make them attractive borrowers at the outset of the program.

In addition to the over 5.7 million businesses with fewer than 500 employees, there are over 26 million non-employer firms.¹¹ Though this was created as a payroll protection plan, two thirds (63%) of non-employers rely on their businesses as their primary source of income, and 20% of non-employers started their businesses because they lacked other options.¹² Non-employer businesses are far more likely to be owned by people of color. Nearly 95% of Black-owned firms were non-employers, and 91% of Latino-owned firms were non-employers. In comparison, 78% of white firms are non-employer businesses.¹³ Of all small businesses, businesses without employees were the most likely to face challenges accessing PPP funds in the initial round.¹⁴ Along with other very small businesses with few employees, the PPP fee structure continues to ensure that these businesses may face challenges finding lenders willing to make small, but critical loans.

B. While access to PPP funding is heavily dependent on traditional financial institutions and prior banking relationships, business owners of color have historically lacked access to credit through these channels and are more likely to not have these relationships.

To receive a PPP loan, applicants must apply with an eligible SBA-approved lender, almost all of which are conventional banks. While additional financial institutions were allowed to become PPP lenders, the process to approve these additional lenders took several weeks. By requiring applicants to go through an SBA-approved lender, rather than directly applying to the PPP program, the program ensured that those businesses with existing conventional lending relationships were more likely to access PPP funds quickly and efficiently, especially in a program where “speed” was the first priority.

There are profound disparities in how business owners fund their enterprises. Research from the Federal Reserve found that in the previous five years, 46% of white-owned businesses with employees accessed credit from a bank, and 6% accessed credit from a credit union. During that same time, just 23% of Black-owned employer firms accessed credit from a bank, and 8% from a credit union and 32% of

⁹ “Shake Shack Will Return Its \$10 Million Loan Amid Furor Over Stimulus Program - The New York Times.”

<https://www.nytimes.com/2020/04/20/business/shake-shack-returning-loan-ppp-coronavirus.html>.

¹⁰ McManus, Michael. “Minority Business Ownership: Data from the 2012 Survey of Business Owners.” US Small Business Administration, September 14, 2016. <https://cdn.advocacy.sba.gov/wp-content/uploads/2016/09/07141514/Minority-Owned-Businesses-in-the-US.pdf>.

¹¹ See U.S. Census Bureau 2018 Annual Business Survey (ABS) and 2018 Nonemployer Statistics (NES)

¹² “Small Business Credit Survey: Report on Nonemployer Firms.” Washington, DC: Board of Governors of the Federal Reserve System, 2019. <https://www.fedsmallbusiness.org/medialibrary/fedsmallbusiness/files/2019/sbcs-nonemployer-firms-report-19.pdf>.

¹³ McManus, 2016.

¹⁴ The availability of Pandemic Unemployment Assistance does not solve the problem of lack of access to the PPP program, for many small businesses. While the PUA gives states the option to offer expanded unemployment assistance to self-employed business owners, it should not be considered a substitute for the critical lifeline provided to businesses through the PPP program, which replaces considerably more lost income.

Latino-owned employer firms accessed credit from a bank and 4% from a credit union.¹⁵ Lacking access to credit can be harmful in the normal course of business, but these disparities also put them at a distinct disadvantage when accessing PPP funds through banks at a time when so many were already on precarious financial footing. In the period April 26 to May 2, the U.S. Census reported that 30.1% of businesses had less than two weeks of cash on hand for business operations and 48% had less than four weeks. While the cash on hand position for many businesses has improved as of the period May 31 to June 6, with 16% reporting two weeks or less, 33.9% of businesses still reported that they had four weeks or less of cash on hand.¹⁶

Relationship banking may have also played a role in lenders' application processing decisions, and thus pre-existing disparities in access to capital have posed further disadvantages for business owners of color. These disparities made it less likely that they would have the commercial lending relationships necessary to access the PPP program and discouraged many from applying. A recent study by the National Community Reinvestment Coalition found steep reductions in SBA 7(A) lending to Black businesses between 2008 and 2016. That same study also found that Black and Hispanic testers when applying for loans were required to produce more documentation to support their loan application and received less information about fees, and less friendly service when visiting a small business lender.¹⁷ Additional research found that business owners of color are more likely than white business owners to feel discouraged from seeking loans.¹⁸ Research from the Federal Reserve also found that business owners of color were more likely to rely on personal funds and personal credit scores to finance their business. Twenty-eight percent of Black and Asian owners and 29% of Latino owners relied on personal funds as the primary funding source for their business, compared to 16% of white business owners. Black and Latino business owners were also more likely to use their personal credit scores when obtaining financing with 52% and 51% doing so, respectively, compared to 45% of white and 43% of Asian business owners.¹⁹ In addition, in SBA's fiscal years ending September 30, 2019 and 2018, for all SBA 7(a) loans made, only 5% were made to Black-owned businesses, and only 9% were made to Hispanic-owned businesses.²⁰

C. SBA and Treasury failed to take steps to ensure businesses owned by people of color would be able to access the PPP. In fact, several administrative decisions actively prevented many owners of color from participating in the program.

Despite a Congressional requirement in the CARES Act, the SBA and Treasury failed to issue guidance to lenders about prioritizing borrowers in underserved and rural markets. A report by the SBA Inspector General did not find any evidence that the SBA issued guidance to lenders to ensure that they prioritized

¹⁵ "Small Business Credit Survey: Report on Employer Firms," 2020.

<https://www.fedsmallbusiness.org/medialibrary/FedSmallBusiness/files/2020/2020-sbcs-employer-firms-report>.

¹⁶ "Small Business Pulse Survey, April 26 to May and May 31 to June 6," <https://portal.census.gov/pulse/data/#data>

¹⁷ "Disinvestment, Discouragement and Inequity in Small Business Lending," National Community Reinvestment Coalition, 2019. <https://ncrc.org/wp-content/uploads/2019/09/NCRC-Small-Business-Research-FINAL.pdf>.

¹⁸ See McManus, 2016. ("Research also finds that minority business owners are more likely to feel discouraged from seeking private loans. In a Census survey, only 16% of nonminorities felt discouraged from seeking a loan, while almost 30% of minorities felt the same way. These, in combination with other reasons, may be why minority business owners have a heavier reliance on personal finances.") (citing Christine Kymn, January 2014, "Access to Capital for Women- and Minority-owned Businesses: Revisiting Key Variables," U.S. Small Business Administration, Office of Advocacy, available at <https://www.sba.gov/sites/default/files/issue%20Brief%203%20Access%20to%20Capital.pdf>)

¹⁹ "Small Business Credit Survey: Report on Minority-Owned Firms," Federal Reserve, 2019.

<https://www.fedsmallbusiness.org/medialibrary/fedsmallbusiness/files/2019/20191211-ced-minority-owned-firms-report.pdf>.

²⁰ "SBA Business Loan Approval Activity Comparisons for Fiscal Years 2012 to 2019, for the Period Ending 08-30-2019," Small Business Administration. Accessed June 16, 2020. https://www.sba.gov/sites/default/files/aboutsbaarticle/WebsiteReport_asof_20190830.pdf.

underserved markets, including rural, minority, and women-owned businesses.²¹ As of today, SBA has has yet to provide this guidance.

The SBA and Treasury also did not collect demographic data on the initial application to determine if lenders prioritized, or even served, underserved markets and businesses. The SBA Inspector General noted that the SBA did not include the “optional standard demographic information for principals” on its PPP loan application form. As a result of this failure to collect data, the SBA Inspector General found that it was unlikely that the SBA would be able to determine whether funds reached underserved markets.²² Without the data, it will also be hard to measure the full impact of the PPP and provide the necessary oversight of this \$660 billion taxpayer funded lifeline.

More than just inaction, the unnecessary hurdles and delays created for non-employer firms disproportionately impacted businesses owned by people of color. For instance, non-employer businesses, which represent 95% of black-owned firms and 91% of Latino-owned firms, were forced to sit on the sidelines for days, while billions of dollars went to large and well-connected businesses. PPP rules prevented non-employer firms, such as the self-employed, from applying for loans until April 10, one week after the program opened to other businesses.²³ As of April 13, 2020, almost \$250 billion of the initial \$350 billion had already been allocated.²⁴ The first round of PPP funding was depleted entirely by April 16, 2020. This delay likely caused irreparable harm to smaller businesses with no employees, which had to wait to receive PPP funds more than 10 days for the second round to start.

Non-employer firms were also forced to provide tax documentation not required for employer firms. SBA guidance for the program requires non-employer firms that file their business taxes on IRS 1040 Schedule C (the most common option for non-employer firms) to submit a draft or filed copy of their 2019 IRS 1040 Schedule C. Although Congress extended the tax filing deadline to July 15th as a result of the COVID-19 crisis, non-employer firms were forced to prepare their 2019 taxes in order to be eligible for a PPP loan – incurring additional costs and delays to which employer firms were not subjected.

Second, though community development financial institutions (CDFIs) and minority-depository institutions (MDIs) have historically best-served businesses and communities of color, many CDFIs and MDIs were unable to participate in the first round of PPP funding. Non-depository institutions that have not had a loan volume of \$50 million within the last three years were unable to serve as lenders during the first round, despite the fact that size of the loans needed for most small businesses does not require a loan volume capacity of anywhere close to that level. Almost half of CDFIs are loan funds that do not take deposits. Many of these CDFIs had loan volumes below \$50 million but also demonstrated significant lending capacity.²⁵ Treasury did not revise this rule until April 30, 2020.²⁶ The revision, however, only lowered the volume threshold to \$10 million. This threshold still excluded many CDFIs

²¹ “Flash Report Small Business Administration’s Implementation of the Paycheck Protection Program Requirements.” Washington, DC: SBA Inspector General, May 8, 2020. https://www.sba.gov/sites/default/files/2020-05/SBA_OIG_Report_20-14_508.pdf.

²² SBA Inspector General, 2020.

²³ “Small Business Paycheck Protection Program.” US Department of Treasury, <https://home.treasury.gov/system/files/136/PPP%20-%20Overview.pdf>

²⁴ “Paycheck Protection Program (PPP) Report Approvals through 4/13/2020.” Small Business Administration, April 13, 2020. <https://www.sba.gov/sites/default/files/2020-04/PPP%20Report%20SBA%204.14.20%20-%20%20Read-Only.pdf>.

²⁵ According to an analysis by the Hope Policy Institute of 2017 CDFI Fund Awardee reports (the most recent available), in 2017, there were 315 Awardees, 212 of which reported originating commercial loans during the year. Twenty-seven of those CDFIs (13%) did more than \$50 million in commercial loan originations that year. However, 146 of CDFIs who did commercial lending (67%) did more than \$1 million in commercial loan originations.

²⁶ <https://home.treasury.gov/system/files/136/IFR-Corporate-Groups-and-Non-Bank-and-Non-Insured-Depository-Institution-Lenders.pdf>

that had received CDFI Fund Awards. Further, recognizing that many financial institutions would need additional liquidity in order to serve as lenders through the PPP, on April 8, 2020, the Federal Reserve Board of Governors voted to create a lending facility for eligible PPP lenders.²⁷ The facility became operational on April 16. However, eligibility was limited to depository institutions. Many non-depository CDFIs also faced liquidity issues, yet the facility was not extended to all PPP lenders, including non-depository CDFIs (that met the other Treasury eligibility requirements) until April 30.²⁸

The program also out-right excluded people based on many forms of criminal legal system involvement, including people who have been charged, but not tried or convicted of a crime. Given the myriad of barriers some system-involved individuals already face to employment, self-employment is a major source of income and opportunity, strengthening family incomes.²⁹ This program, however, excludes business owners with past felony convictions, penalizing those who have already served their sentences and have returned to their communities for a fresh start. Additionally, employees of these business owners also suffer from this restriction to access of the PPP program, given that system-involved individuals are not eligible. Racial disparities in all aspects of the criminal justice system are well-documented, and there is some evidence that this provision in the PPP has already negatively impacted business owners of color, their employees, and their communities.³⁰ While this particular barrier was partially removed earlier this week, with only \$100 billion and 2 weeks left in the program, it is unlikely that the businesses that have already been irreparably harmed by this exclusion will be made whole.

D. Second-round funding remains available and some improvements have been made, but structural issues remain that continue to limit PPP access for owners of the smallest businesses and business owners of color. The negative impact on business' long-term prospects may be difficult to reverse.

There is growing evidence that the structural barriers at the outset of the program and carried over to the second round resulted in either no access or delayed access to critical PPP funding.

At the end of the first round of funding on April 16, 2020, the average loan size was \$206,000. Second round funding averaged \$72,296 as of May 12, 2020³¹ and the average loan size for both rounds of the program to date was \$112,126 as of June 12, 2020.³² Smaller businesses that were pushed to the end of the line by larger and more connected businesses at the outset of the program, however, were forced to go weeks without critical support to keep their employees on payroll and their businesses afloat.

²⁷ <https://www.federalreserve.gov/publications/files/paycheck-protection-program-lending-facility-4-16-20.pdf>

²⁸ <https://www.federalreserve.gov/newsevents/pressreleases/monetary20200430b.htm>

²⁹ The program excludes businesses for which "An owner of 20 percent or more of the equity of the applicant is incarcerated, on probation, on parole; presently subject to an indictment, criminal information, arraignment, or other means by which formal criminal charges are brought in any jurisdiction; or has been convicted of a felony within the last five years; has been convicted of a felony within the last five years." SBA Business Loan Program Temporary Changes; Paycheck Protection Program, Interim Final Rule, 85 FR 20811, <https://www.federalregister.gov/documents/2020/04/15/2020-07672/business-loan-program-temporary-changes-paycheck-protection-program>

³⁰ Brooks, Christopher. "A Criminal Past Means No Paycheck Protection Program Loan." *CBS News*, April 21, 2020.

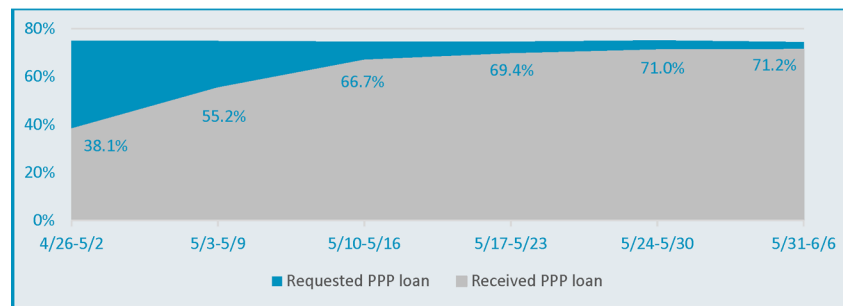
<https://www.cbsnews.com/news/paycheck-protection-program-loans-small-business-owners-criminal-convictions-excluded-coronavirus/>.

³¹ See "Paycheck Protection Program (PPP) Report Approvals through 12 PM EST 4/16/2020." Small Business Association: 4/16/2020, "Paycheck Protection Program (PPP) Report: Second Round Approvals from 4/27/2020 through 05/01/2020." Small Business Administration, 2020. <https://home.treasury.gov/system/files/136/PPP2-Data-05012020.pdf> and "Summary of Paycheck Protection Program Round 2 Data as of 5:00 P.m. EDT, Wednesday, May 6, 2020." Small Business Administration. <https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program#section-header-11>.

³² "Paycheck Protection Program (PPP) Report Approvals through 05/30/2020." Small Business Administration, May 30, 2020. https://www.sba.gov/sites/default/files/2020-06/PPP_Report_200530-508.pdf.

The U.S. Census Small Business Pulse Survey, a weekly survey of small businesses with 500 or fewer employees in certain sectors, provides some insight into the early delays small businesses faced accessing PPP funds.³³ Businesses with no other employees other than the owner are not included and no information on the race, ethnicity, gender or veteran status of the business owner is available. Since late April, approximately 75% of small businesses with 500 or fewer employees responded that they had requested funds from the PPP program. As of the first week of the survey, which follows the end of the first round and the beginning of the second round of PPP funding, only 38.1% of businesses responded that they had received funding. Two weeks later, 66.7% of businesses responded that they had received funding. Not until a month after the beginning of the survey did the received rate begin to track the application rate (Figure 4).

Figure 4. Business owners faced long delays at the outset of the program



Source: U.S. Census Small Business Pulse Survey weekly data 4/26 to 6/6.

In May 2020, Color of Change and UnidosUS released a survey conducted by Global Strategy Group, documenting the challenges that Black and Latino business owners faced when attempting to access PPP loans.³⁴ The survey found that 51% of Black and Latino small business owners who sought assistance applied for less than \$20,000, with only 12% responding that they received the full amount of assistance requested. In all 41% of Black and Latino business owners responded that they had been denied assistance. As of the date the survey was fielded, 21% indicated that they were still waiting to hear if they will receive any assistance. As discussed in the prior section, PPP applicants faced long delays at the outset of the program. Of the Black and Latino business owners who received either partial or full assistance, 45% responded that they had to wait more than two weeks to receive their funds.³⁵

³³ For details on the survey methodology, see United States Census Bureau. "Small Business Pulse Survey Data - About the Data." Accessed June 14, 2020. <https://portal.census.gov/pulse/data/#about>

³⁴ Global Strategy Group conducted a national online survey of 500 Black and Latinx small business owners, 609 Black workers, and 610 Latinx workers, from April 30 through May 11, 2020 on behalf of Color of Change and UnidosUS. The precision of online surveys is measured using a credibility interval. In the case of the surveyed population of Black and Latinx small business owners the interval is +/-4.4% when analyzed in aggregate. Complete findings are available at https://colorofchange.org/press_release/first-covid-19-survey-of-black-and-latino-small-business-owners-reveals-dire-economic-future/ and https://colorofchange.org/press_release/first-covid-19-survey-of-black-and-latino-small-business-owners-reveals-dire-economic-future/.

³⁵ Global Strategy Group

This same survey also found that 56% Black and Latino business owners said that they strongly support direct federal assistance to prevent mass layoffs and keep them afloat so they can quickly and safely restart and rehire their workers.³⁶

In a survey conducted by Goldman Sachs of more than 1,700 small business owners, Black-owned firms were less likely to apply for and less likely to be approved for PPP during the first round of funding. While 91% of all firms in the survey applied for funding, just 79% of Black-owned firms applied. Of those that applied, just 40% of black-owned firms were approved for funding, while 52% of total firms were approved. Black-owned firms were more likely to indicate that their finances had been hurt and that they had less than one month's cash reserves on hand.³⁷ Even these disparities in application and approval are likely understated. The study was based on a convenience sample of firms participating in the Goldman Sachs *10,000 Small Businesses Program*, suggesting these firms may have advantages and connections not readily available to most small businesses.

While funding is still available in round two, the lost opportunity for prompt relief may have compounded financial hardship for many businesses and may increase the amount of assistance required to get them back on their feet. Given that the number of business owners of color has declined sharply since the beginning of the crisis, falling on communities hardest hit by the Great Recession that have yet to fully recover.

Ensuring these firms were fully supported at the outset of the crisis should have been a top priority. Among non-employers, those firms with no employees besides the owner, 71% have plans to expand, and one in four (24%) plan to hire employees in the next 12 months.³⁸ According to the SBA, the number of non-employer firms increased 58% between 1997 and 2015 and owners of non-employer firms are younger and more diverse than employer firms.³⁹ Barring them from funds at the outset of the program may have imposed additional long-term challenges to economic growth, future hiring, and entrepreneurship opportunities for some firms. These harms should be considered in assessing the extent of necessary further relief.

IV. The loan forgiveness requirements present substantial challenges to small businesses whose survival depends on PPP loan forgiveness rather than conversion to long-term debt.

PPP loans are, of course, intended to be forgivable if the proceeds are used for payroll and other eligible expenses. But for those micro-businesses that were fortunate enough to obtain a PPP loan, the process they must go through to obtain forgiveness is so complex and time-consuming, it may strain those businesses to the breaking point. And for the lenders who made these loans, the process they must go through before submitting the forgiveness application will cost far more than the origination fees they received.

³⁶ Global Strategy Group

³⁷ "Survey: US Small Business Owners Need More Funding and Immediate Legislative Action." Goldman Sachs, 2020.

<https://www.goldmansachs.com/citizenship/10000-small-businesses/US/infographic-small-business-relief/>.

³⁸ "Small Business Credit Survey: Report on Nonemployer Firms." Washington, DC: Board of Governors of the Federal Reserve System, 2019.

<https://www.fedsmallbusiness.org/medialibrary/fedsmallbusiness/files/2019/sbcs-nonemployer-firms-report-19.pdf>.

³⁹ "A Look at Nonemployer Businesses." Small Business Administration, August 2018.

<https://www.sba.gov/sites/default/files/advocacy/Nonemployer-Fact-Sheet.pdf>.

A. The forgiveness application is unnecessarily burdensome and complicated, especially for the smallest businesses.

The loan forgiveness application process is set forth in an eleven-page packet of instructions and forms issued by the SBA “in consultation with” the Treasury Department. The forms require borrowers, among other things, to calculate the amount paid to each employee during the “Covered Period” or the “Alternative Payroll Covered Period,” and, for each employee who also was employed during the first calendar quarter of 2020, the amount paid during that period. The borrower also must calculate the average number of full-time equivalent employees during the Covered Period or Alternative Payroll Covered Period and during the “chosen reference period,” which can be either the period from February 15 to June 30, 2019, or the period from January 1 to February 29, 2020. In the case of seasonal employees, it can be any consecutive twelve-week period between May 1, 2019, and September 15, 2019. As to all of this, the borrower must certify – under penalty of what amounts to perjury and threat of civil and criminal penalties including significant fees and jail time – that the borrower has accurately verified the amounts claimed and made all applicable reductions.

Further, the borrower must submit with a loan forgiveness application documentation verifying the amount paid to each employee during the Covered Period or Alternative Payroll Covered Period, and the amount paid for non-cash benefit payments, including bank statement or payroll service provider reports; tax forms or equivalent reports; and payment receipts, canceled checks, or account statements documenting contributions for health insurance and retirement plans. Borrowers seeking forgiveness for amounts spent on mortgage or rent must submit additional documentation. Documentation requirements for mortgage payments must show the amount of the payments attributable to interest separate from principal, and rental payment documentation must show the amount of rent that was due under the lease and the amount that was paid. Borrowers seeking forgiveness for amounts spent on utilities must submit invoices and receipts or canceled checks verifying those payments. When submitting the application, the borrower must certify – again under penalty of what amounts to perjury – that it has submitted all the required documentation.

Additionally, the instructions list four other categories for which the borrower must maintain documents for six years, including documentation supporting the listing of each individual employee in PPP Schedule A Worksheet Table 1 and Table 2.

These complex instructions were issued on May 15, 2020. Three weeks later, Congress enacted changes to the PPP, which created welcome exceptions to some of the provisions of the CARES Act governing the calculation of loan forgiveness. However, those exceptions will only add to the complexity of the application process. Borrowers may now be required to submit – in addition to all the other documentation requirements – documents verifying efforts to recall or replace laid-off employees or verifying the business’ inability to return to its prior level of business activity for reasons related to worker or customer safety requirements related to COVID-19. While these are welcome exceptions, in all likelihood, the eleven-page application package will soon grow even bigger and more complex.

Despite SBA’s estimate that the complex, eleven-page form should take 3 hours to complete, recent research by AQN Strategies estimates that the time necessary to complete the forgiveness form ranges from 20 hours to 100 hours at the high end.⁴⁰ For large businesses with well-staffed human resources

⁴⁰ Sabloff, Ben, Jason Ford, and Gaby Garcia. “Is It Easier to Ask for Forgiveness Than Permission? Not for PPP Loans Under \$150K.” AQN Strategies, June 1, 2020. <https://bpi.com/wp-content/uploads/2020/06/CBA-BPI-Letter-Forgiveness-Proposal-6.2.20.pdf>.

and finance functions, these requirements, while burdensome, would not be prohibitively difficult. But for the small businesses the PPP was designed to serve – and especially for micro-businesses with a handful of employees – it is simply not realistic to expect the business to do all these calculations and assemble all the required papers while still attempting to operate their business in a challenging business environment. Combined, the complexity of the form and the related civil and criminal penalties for inaccuracies are tantamount to a requirement that these small firms pay significant fees to accountants or financial advisors to assist in completing their forgiveness application – funds these businesses need instead for their ongoing operations. Moreover, businesses that might otherwise have applied for PPP loans in round two have been discouraged from doing so because of the gauntlet of paperwork they would have to navigate to obtain forgiveness.

B. Lenders who well serve small businesses will also be burdened by unduly application and documentation requirements for small loans.

For the lenders who made these loans, the burden is equally crushing. The SBA has issued an Interim Final Rule which requires lenders to review each borrower's forgiveness application and "Confirm receipt of the documentation borrowers must submit ... as specified in the Loan Forgiveness Application Form," and, after "reviewing the documentation," "Confirm the borrower's calculations on the Loan Forgiveness Application, including the dollar amount ... claimed on Lines 1,4,6,7,8 and 9 on PPP Schedule A and ... on Lines 2, 3, and 4 on the PPP Calculation Form." The regulation allows for "minimal review of calculations based on a payroll report by a recognized third-party payroll processor." But where the borrower is not big enough to use such a processor – which will be true for the smallest of the businesses which obtained PPP loans -- "more extensive review of calculations and data would be appropriate." Based on all this, the lender must decide whether "the borrower is entitled to forgiveness of some or all of the amount applied for under the statute and applicable regulations."⁴¹

Simply to state these requirements is to make plain the problem. Perhaps for those lenders whose average PPP loan exceeded \$200,000 – and who thus were paid, on average, \$10,000 per loan – it is economically feasible to undertake this kind of review. However, the regulations will surely discourage even those lenders from making smaller loans going forward. But for the PPP lenders who have been making loans averaging \$50,000 or less – most of whom are themselves small businesses with limited staff and who averaged only \$2,500 or so per loan – processing these loan forgiveness applications will be prohibitively difficult. Without changes to the forgiveness process and requirements, many lenders will likely conclude that they cannot afford to continue in the program.

C. Despite Congressional intent, some borrowers will also have their forgiveness amount reduced due to receipt of an EIDL Advance.

It was the intention of this Congress when it drafted the CARES Act to expedite the delivery of EIDL loan proceeds by providing advances of up to \$10,000 in the form of grants to loan applicants. The EIDL advance was meant to be received within days, but the actual execution took much longer. If the Small Business Administration ultimately approved the EIDL loan, then the lender would enter a loan agreement with the borrower and release the remaining loan amount if it exceeded \$10,000. As a grant, the \$10,000 advance portion was not meant to be repaid even if the SBA ultimately denied the EIDL loan. SBA reference materials have consistently said that EIDL advances did not need to be repaid, and

⁴¹ 85 Fed. Register 33010, 33013 (June 1, 2020).

many borrowers entered into these agreements with that expectation. Borrowers deserve better than a bait and switch in emergency assistance.

Further, the CARES Act clearly permitted borrowers to seek both an EIDL and a PPP loan. If the EIDL loan were utilized for payroll, it was required to be refinanced into its PPP loan. Since the entire amount could then be forgiven as a PPP loan, the PPP forgiveness amount would be reduced by any EIDL advance. Should the borrower choose to use its EIDL for other purposes, it would not have to refinance its EIDL into the PPP loan. In that case especially, reducing PPP forgiveness by the amount of an EIDL advance used for other business purposes creates an unfair disadvantage for businesses that permissibly obtained emergency loans to help them survive. However, even in the case of an EIDL grant used for payroll expenses there is little justification for decreasing PPP forgiveness by the EIDL amount. If these funds were used according to the express purpose of the program, there should not be a penalty for seeking support that was available quicker and with fewer hurdles for some borrowers.

To date, we have seen numerous cases of PPP loans that should be considered for full forgiveness as they were spent on eligible expenses. Instead, PPP borrowers will be saddled with repaying their EIDL advances in 2-5 years, instead of receiving the advance as the promised grant.

V. Improvements to the Paycheck Protection Program are necessary for more businesses to access to relief and recover.

To date, SBA has already spent more through the PPP program than through all of its lending over the past three decades. As one of the largest government small business programs ever and a key component of the federal government's pandemic relief program, it is imperative that the funding and benefits are distributed equitably and that communities are not left out of our relief and recovery going forward. Several key fixes are critically important for ensuring that the smallest and most vulnerable businesses, including those owned by people of color, have sufficient access to PPP funding and forgiveness. To address these issues, we recommend the following:

A. Ensure remaining funding reaches businesses that were previously unable to access the PPP.

- **Congress should immediately extend the origination period and separate the PPP from other SBA 7(a) programs.** Over \$100 billion remains in the second PPP allocation. Congress should ensure that these funds are available for PPP loans to new borrowers until they are exhausted. Currently, the PPP is set to expire at the end of this month whether or not funds remain.
- **Institute a minimum origination fee of the lesser of \$2,500 or 50% of the loan amount.** A minimum fee is required to address the higher cost of reaching and serving underserved borrowers and to incentivize more lenders to serve smaller businesses.
- **Provide adequate support and resources for community development financial institutions (CDFIs) and minority-depository institutions (MDIs) (not to include bank-affiliated CDFIs).** Reserve \$10 billion of the remaining PPP small business loan funding for loans by CDFIs and MDIs of which \$5 billion should be reserved for loans of up to \$75,000. Congress should also make a \$1 billion emergency allocation to the CDFI Fund. Though Treasury recently created a set-aside for CDFIs, it did not include MDIs and the allocation only included \$7 billion in new funding.

The changes made between Round 1 and Round 2 of the PPP somewhat increased CDFIs' and MDIs' access to deploying PPP funds. For example, since May 8, CDFI lending more doubled, and as of June 12, MDI lending exceeds \$10 billion.⁴² Minority-led financial institutions in particular are "uniquely positioned to cater to the needs of their communities, which are often people of color."⁴³ These institutions "have significant social capital within the communities they serve. Through close ties and engagement, they are able to develop and deploy financial products that address the needs of their communities."⁴⁴ The nation's largest MDI decided to become a PPP lender in Round 2 because of the extent to which Black businesses were locked out of access in Round 1.⁴⁵ This is promising evidence of their capacity to supporting the survival and growth of small businesses of color. It is not, however, enough to fully address the reality of businesses of color being locked out by program design and the exclusionary way in which banks deployed the overwhelming majority of the PPP dollars. Now and in the future, more support will be needed to ensure CDFIs, particularly minority-led CDFIs, and MDIs have sufficient resources to adequately meet the depths of the needs of small businesses of color harmed by this crisis and unserved by the federal relief dollars that have flowed from it.

- **Require SBA and Treasury to immediately issue guidance to lenders on prioritizing underserved markets and businesses with fewer than ten employees located in low- and moderate-income census tracts.**
- **Expand the list of eligible expenses that can be used to determine loan amount and forgiveness.** Include necessary ongoing business costs, such as business insurance, inventory, costs associated with vehicles and equipment (loan payments, insurance, maintenance), costs needed to adapt to the pandemic, including safety equipment, retrofitting spaces, and payments to IRS Form 1099 independent contractors, on whom small businesses rely.
- **Revise existing guidance that prohibits businesses from including documented IRS Form 1099 payments to independent contractors in their PPP loan amount calculations and forgiveness requests.** By requiring independent contractors to apply for their own, necessarily smaller, PPP loans, SBA has made it less likely that independent contractors will receive funding, and less likely that the small businesses that rely on independent contractors will be able to continue to operate.
- **Allocate funding for outreach and enrollment assistance:** \$30 million in funding for grants to Community Development Corporations and community-based organizations for outreach, enrollment assistance, and technical support for compliance and loan forgiveness, for eligible businesses. Many of the eligible borrowers that have not yet accessed the PPP do not have a "preferred" banking relationship or lawyers and accountants to assist them in

⁴² "Paycheck Protection Program (PPP) Report Approvals through 06/12/2020." Small Business Administration. Accessed June 16, 2020. https://www.sba.gov/sites/default/files/2020-06/PPP_Report_20200612-508.pdf.

⁴³ Kiyadh Burt, Hope Policy Institute, Closing the CDFI Asset Gap, <http://hopepolicy.org/blog/closing-the-cdfi-asset-gap/>.

⁴⁴ Id.

⁴⁵ "That was it—silence": As bailout funds evaporate, minority-owned businesses say they've been shut out, <https://www.fastcompany.com/90498767/that-was-it-silence-as-bailout-funds-evaporate-minority-owned-businesses-say-theyve-been-shut-out> ("Due to the minority underbanking crisis, especially since African-American and Hispanic communities have been hardest hit by the coronavirus, Williams says that her bank decided over the weekend to participate as a lender in the second round of the program").

understanding the program. The time and resources needed to reach out to underserved businesses and support them through the application and loan forgiveness process will be significantly greater than for larger businesses. To expand their reach, many CDFI and MDI lenders are engaging non-profit “agents,” including community-based organizations, that have experience working with underserved borrowers, and particularly those that provide culturally and linguistically relevant services to business owners of color.

- B. Provide automatic forgiveness with safe harbor treatment for any loan under \$100,000 based on a simple certification from the business owner.** Although CRL believes that SBA has the discretion to reduce the burden imposed by its loan application forgiveness requirements, we also believe that a full solution requires Congressional action. Specifically, we urge Congress to enact a streamlined set of forgiveness requirements for loans under 100,000 and, for such loans, a safe harbor which permits lenders to rely on borrowers’ certification without having to review and confirm borrower calculations. To receive forgiveness on a loan, a borrower need only submit a simple form including demographic information, a statement of the total amount spent on payroll and the total amount spent on eligible non-payroll expenses with a cap on the latter relative to the former, and an attestation that the information is true to the best of the applicant’s knowledge. In addition, now that the covered period for expenses is 24 weeks, Congress, SBA and Treasury should also ensure that borrowers are able to apply for forgiveness as soon as they have exhausted the funding.

As of May 30, 79.2% of PPP loans originated were for amounts of less than \$100,000, representing 19.6% of the total dollars lent.⁴⁶ The average loan size was \$114,000. The smallest PPP loans are being provided to microbusinesses and sole proprietors that have the least capacity and resources to engage in a complex process with their financial institution and the SBA and that should not be saddled with debt or ongoing audit risk as a result of participating in the PPP program. Applying automatic PPP loan forgiveness for loans of \$100,000 or less would likely exempt firms with, on average, 13 or fewer employees and save 71 million hours of small business staff time (Figure 5). Based on the average monthly payroll per employee of \$3,108 for smaller firms (1-9 employees) and the PPP application formula, a firm that qualified for a \$100,000 loan would likely have a monthly payroll of \$40,000 supporting, on average 13 employees.⁴⁷ Firms with 1 to 9 employees make up 68% of total businesses with employees, and firms with 1-19 employees make up 78% of total businesses with employees.⁴⁸

⁴⁶ “Paycheck Protection Program (PPP) Report Approvals through 05/23/2020.” Small Business Administration, May 23, 2020.

https://www.sba.gov/sites/default/files/2020-05/PPP_200523.pdf.

⁴⁷ Annual Business Survey: Employment Size of Firm Statistics for Employer Firms by Sector, Sex, Ethnicity, Race, and Veteran Status for the U.S., States and Metro Areas: 2017. Estimated monthly payroll represents the total PPP loan amount divided by 2.5. Average payroll of \$37,299 annually per employee is based on the total payroll for all firms with 1-9 employees divided by the total number of employees for all firms with 1-9 employees. Using the same method, the next employee category of 1 to 19 employees results in an annual average payroll per employee of \$37,944 or \$3,162 per month. Firms reporting payroll but no employees in the pay period that included March 12 of the reference year were excluded to determine the annual and monthly payroll per employee. For more information on the Annual Business Survey see <https://www.census.gov/programs-surveys/abs/about.html>.

⁴⁸ 2017 Annual Business Survey.

Figure 5. Automatic loan forgiveness for small loans would benefit small firms and save millions of hours of labor

	\$100,000 or less	\$350,000 or less
PPP loans as of May 30 ⁴⁹		
<i>Count</i>	3,544,335 (79.2%)	4,196,555 (93.8%)
<i>Dollars lent</i>	\$100,003,285,235 (19.6%)	\$217,574,329,726 (42.6%)
Number of employees based on average payroll per employee ⁵⁰	13 (based on average payroll per employee for firms with 1-9 employees)	42 (based on average payroll per employee for firms with 20-49 employees)
<i>Percent of total employer firms⁵¹</i>	~68 to 78% of employer firms	~86% of employer firms
Hours of labor saved ⁵²	71 million hours	84 million hours

- C. Expressly permit lender and SBA reliance on good faith borrower certification** – For PPP loans under \$2,000,000, borrowers should submit a forgiveness application and basic documentation. The application should include a good faith certification that all PPP funds have been used on eligible expenses and per the statutory guidelines. It must be made clear that lenders submitting forgiveness applications on behalf of borrowers to SBA may rely on the borrower's certification, absent outside evidence of fraud, as sufficient to establish the borrower's eligibility for forgiveness without lender review and re-calculation of the forgiveness amount, and the amount of forgiveness to which the borrower is entitled shall be based on such borrower certification. The SBA, likewise, may rely on all information submitted by the lenders for these loans absent outside evidence of fraud. Without the ability to rely on these certifications, borrowers will still be subject to extensive documentation requirements and costs for the lender to review, whether or not that documentation must then be sent to the SBA.

⁴⁹ "Paycheck Protection Program (PPP) Report Approvals through 05/30/2020," Small Business Administration, May 30, 2020. https://www.sba.gov/sites/default/files/2020-06/PPP_Report_200530-508.pdf.

⁵⁰ Annual Business Survey: Employment Size of Firm Statistics for Employer Firms by Sector, Sex, Ethnicity, Race, and Veteran Status for the U.S., States and Metro Areas: 2017. Estimated monthly payroll represents the total PPP loan amount divided by 2.5. Average payroll of \$37,299 annually per employee is based on the total payroll for all firms with 1-9 employees divided by the total number of employees for all firms with 1-9 employees. Using the same method, the next employee category of 1 to 19 employees results in an annual average payroll per employee of \$37,944 or \$3,162 per month and the annual average payroll for firms of 20-49 employees is \$40,796 or \$3,400 per month. Firms reporting payroll but no employees in the pay period that included March 12 of the reference year were excluded to determine the annual and monthly payroll per employee. For more information on the Annual Business Survey see <https://www.census.gov/programs-surveys/abs/about.html>.

⁵¹ Percent of total employer firms exempted under each automatic loan forgiveness threshold based on the number of employer firms with 1-9, 1-19, or 1-49 employees. Based on the maximum per employee payroll eligible for PPP payroll calculations, it is likely that non-employer firms that received PPP funds would be included as well.

⁵² Based on the estimate of 20 hours saved per loan subject to automatic loan forgiveness. See Sabloff, Ben, Jason Ford, and Gaby Garcia. "Is It Easier to Ask for Forgiveness Than Permission? Not for PPP Loans Under \$150K." AQN Strategies, June 1, 2020. <https://bpi.com/wp-content/uploads/2020/06/CBA-BPI-Letter-Forgiveness-Proposal-6.2.20.pdf>.

- D. Require all lenders who receive support from any federal lending facility or program to offer technical assistance to small and micro businesses.** To date, the federal government has provided billions of dollars in relief and incentives to financial institutions and large corporate entities. These companies can and should play a critical role in supporting small businesses and the economy.
- E. Implement and require a robust data collection and public reporting process for all PPP loans.** SBA should collect and report demographic information on race, national origin, and gender of principal owners of each applicant and each approved loan, and require SBA to publicly release data on applications and approvals by race, national origin, and gender by lender. As reported by the SBA Inspector General in its Flash Report of May 8, 2020, the SBA has not implemented the program in a way that aligns with the provisions of the CARES Act. The report specifically identified four areas that need strengthening: prioritizing underserved and rural markets, providing clear guidance for forgiveness, providing guidance on loan deferments, and establishing a registry of loans. Transparency is essential to this program, and true transparency and impact can only be determined if data is collected and analyzed. Data tells the American public which businesses are being served with public dollars. Businesses of color deserve their fair share. We estimated that more than 90% of businesses of color were unlikely to access the original \$349 billion. Further, SBA loan programs, in general have a poor track record of serving Black and Latino businesses in particular.⁵³
- F. Ensure robust data collection on small business lending going forward.** Even before the transparency issues with this massive influx of government support, the dearth of data on small business lending has been a major obstacle for ensuring equity for decades. The limited data masks the lack of equitable investment of taxpayer-supported funds and access to business capital for communities of color and those in rural markets. In fact, in addition to data collection being one of the much-needed improvements to the PPP program, robust data collection is also needed for existing laws enacted to incentivize community investment and job creation through access to business capital. Without publicly available data, it is difficult to prove or disprove, or adequately address, inequities in small business lending.

The Community Reinvestment Act (CRA), enacted in 1977 to encourage federally regulated depository institutions to meet the credit needs of all families and communities, mandates some small business data disclosure, but CRA data only provides the aggregate dollar volume of loans originated to businesses with revenues less than \$1 million, not individual loan amount or type of loan, and is only required from institutions with assets over \$1.2 billion (as of 2019).⁵⁴ In fact, ten years ago, Congress took steps to address this issue through Section 1071 of The Wall Street Reform and Consumer Protection Act, requiring much more comprehensive data collection for small business loans. However, Section 1071 has yet to be implemented by the Consumer Financial Protection Bureau. Congress should urge an immediate rulemaking under Section 1071 of Dodd-Frank for the overall business lending market.

A recently released Office of the Comptroller of the Currency final rule took steps to weaken the effectiveness of the Community Reinvestment Act and its ability to encourage lending in low-

⁵³ In FY2019, SBA 7a program approvals were 6.3% Hispanic and 3.3% African American. <https://fas.org/sgp/crs/misc/R41146.pdf>

⁵⁴ "Disinvestment, Discouragement and Inequity in Small Business Lending." National Community Reinvestment Coalition, 2019. <https://ncrc.org/wp-content/uploads/2019/09/NCRC-Small-Business-Research-FINAL.pdf>.

and moderate-income communities and to small business owners and did not sufficiently improve the disclosure of small business data. The final rule will not require the collection of data on race and ethnicity.

VI. Conclusion: Congress, Treasury and the SBA must ensure all small businesses owners can participate in the coming economic recovery.

During this major economic and public health disruption, we must take care not to continue a legacy of discrimination and harmful outcomes laid upon communities of color, who are already suffering disproportionate health effects from COVID-19. The Great Recession drained communities of color of a trillion dollars of wealth that they have yet to recover and now these same communities are experiencing the brunt of this pandemic, including higher levels of lives lost, illnesses, and job losses. Despite this, there is already overwhelming evidence that one of the largest COVID-19 relief programs has excluded businesses of color and exacerbated the underlying racial wealth gap.

To ameliorate some of this damage, at a minimum, we must ensure that those excluded are more easily able to access the remaining PPP funds; that the loan forgiveness process is not overly burdensome; and that data on recipients of PPP loans is collected and made available.

In a time of economic uncertainty, as we continue to reckon with our nation's history and racial injustice permeates every facet of our society, we should be taking every step to ensure that individuals and communities of color are well served and supported going forward.

While the above fixes are necessary to ensure that at least some relief reaches communities of color, much more will be needed. Bold new policies and programs are needed to create equity in small business lending and ensure that business owners have access to the credit and relief they deserve. We also must move towards solutions that are not reliant on credit and financial intermediaries, such as providing grant funding for micro businesses. These grants could be distributed monthly directly by the IRS, SBA or FEMA, in an amount sufficient to cover payroll and other expenses until the business is able to reopen and return to normal or similar operations. There must also be dedicated efforts and targeted help for underserved communities to curb the effects of this pandemic on income and wealth inequality. The current wealth and public health disparities did not occur by happenstance. We cannot allow federal policies and investments to continue the centuries old practice of excluding people of color.

Appendix A. Industry sectors with above-average small business ownership by people of color hard hit by the crisis

Industry Sector	Percent of small businesses majority-owned by people of color	Crisis has had a large negative effect	I do not believe this business will return to its normal level of operations relative to one year ago
Accommodation and food service	34.4%	73.7%	19.2%
Other services (except Public administration)	23.2%	52.6%	14.5%
Health care and social assistance	22.5%	55.7%	10.8%
Retail trade	22.4%	39.8%	9.6%
Transportation and warehousing	19.4%	42.5%	11.6%
Wholesale trade	18.1%	40.5%	8.8%
Firms with <500 employees, all sectors	17.6%	41.3%	10.1%
Administrative and support and waste management and remediation services	15.3%	35.0%	8.3%
Professional, scientific, and technical services	14.0%	28.1%	7.6%
Educational services	12.8%	58.9%	14.3%
Information	12.0%	38.0%	8.3%
Construction	10.8%	20.6%	6.3%
Finance and insurance	10.5%	18.2%	6.1%
Real estate and rental	10.0%	37.0%	8.1%
Manufacturing	9.8%	37.1%	7.3%
Arts, entertainment, and recreation	7.0%	71.7%	14.1%
Mining, quarrying, and oil/gas extraction	4.3%	44.3%	9.9%
Management of companies and enterprises	4.0%	17.8%	0.0%
Utilities	3.1%	4.7%	0.0%
Above average concentration of small business owners of color		50.8%	12.4%
Below average concentration of small business owners of color		34.3%	7.5%

Source: 2018 Annual Business Survey (ABS) and U.S. Census Small Business Pulse Survey (SBPS). Responses to SBPS questions: "Overall, how has this business been affected by the COVID-19 pandemic?" and "In your opinion, how much time do you think will pass before this business returns to its normal level of operations relative to one year ago?" NAICS industry codes from the Annual Business Survey are included where U.S. Census SBPS data is available. Percent majority ownership by people of color determined based on all sectors available in the ABS for businesses with fewer than 500 employees. Majority ownership by people of color determined using the ABS minority ownership status defined as any race and ethnicity combination other than non-Hispanic and white. Technical documentation is available at <https://www.census.gov/programs-surveys/abs/technical-documentation/methodology0.html>.

Appendix B. Business owners describe their experience with the Paycheck Protection Program

1. Rahama Wright, a business owner in Washington, DC, was preparing to shut Shea Yeleen, her beauty supply business down, when she failed to get a PPP loan in the first round. She furloughed her entire staff of five, before finally receiving a loan in the second round. "I 100% feel like I got lucky," Wright said, who estimates the funding will give her a three to four month runout and allow her to bring back three of her staff members. Her storefront will remain closed as she boosts her online presence.⁵⁵
2. Calvin Stevens, President of Bernard Irby Electric in Charlotte, North Carolina says the PPP loan received by Irby, a Black veteran-owned business, will allow him to maintain the entire staff of 30 employees.⁵⁶
3. Bernard Loyd, a native of Chicago, Illinois's Bronzeville neighborhood, attributes the success of his community economic development organization Urban Juncture in receiving a PPP loan to his financial services background, and points out that many Black-owned enterprises in Chicago haven't been as lucky: he estimates that of the community businesses he's worked with, 90% were unable to access the first round of PPP loans.⁵⁷
4. Pastors and clergy across America have also been finding mixed success through the PPP process: "We applied when the program first became public, but we did not receive any funding," said Rev. James Perkins, the pastor of Greater Christ Baptist Church, in Detroit, Michigan. Perkins was forced to lay off most of his nine church employees, and he has asked the remaining staff to take salary cuts. When the process has been successful, it has been extremely helpful: "It's a huge boon for us," said Father Carl Beekman, parish priest at the Church of St. Mary, which serves about 1,300 families in Sycamore, Illinois.⁵⁸
5. Claudia Garza owns Bright and Early Productions in Dallas, Texas with her husband. The company, a photography and videography company, serves the real estate industry. To keep safe from COVID-19 they are currently only photographing unoccupied homes. The business has suffered as a result and had to reduce their employees' hours. Claudia Garza described struggling to get their bank, Wells Fargo, on the phone, and then when she did, she was not satisfied. "It feels like I'm a small fish... maybe they have people who have larger accounts or maybe contacts within the bank. They got the help a lot faster than I did. I don't have contacts at Wells Fargo," she said.⁵⁹

⁵⁵ Presha, Alex. ABC News. "DC small business owner struggling to get PPP funds during coronavirus crisis", accessible at <https://abcnews.go.com/Business/dc-small-business-owner-struggling-ppp-funds-coronavirus/story?id=70842196>.

⁵⁶ Triangle Business Journal. "Opinion: How PPP helped minority-owned firms across the nation", accessible at <https://www.bizjournals.com/triangle/news/2020/06/05/how-ppp-helped-minority-owned-businesses.html>.

⁵⁷ Black, Curtis. The Chicago Reporter. "Minority-owned businesses largely miss out on federal relief", accessible at <https://www.chicagoreporter.com/minority-owned-businesses-largely-miss-out-on-federal-relief/>.

⁵⁸ Gjeltzen, Tom. National Public Radio. "Black Pastors Say They Have Trouble Accessing SBA Loan Program", accessible at <https://www.npr.org/2020/04/25/844802957/black-pastors-say-they-have-trouble-accessing-sba-loan-program>.

⁵⁹ Flahive, Paul. Texas Public Radio. "Latino Businesses Not Receiving 'Fair Share' Of Federal Relief, Say Advocates", accessible at <https://www.keranews.org/post/latino-businesses-not-receiving-fair-share-federal-relief-say-advocates>.

6. Rosemary Ugboajah, owner of Neka Creative in Minneapolis, Minnesota applied through her credit union, but was unsuccessful: "They were hard to reach, but eventually I got through to someone and they emailed me back saying they can't process the loan because they don't process SBA loans," she said. "I wasn't aware of that."⁶⁰
7. Dannesia Pullen, owner of PullenBoy Hauling in Rolesville, North Carolina, has experienced a difficult time during the COVID-19 crisis: "We have seen a 15-20 percent decline in cash flow," she says. She has applied for a PPP loan and for an Economic Injury Disaster Loan and has been denied for both. She added, "When I see businesses like the NBA, Ruth Chris, and Potbelly receiving funding, I no longer have faith in the government."⁶¹
8. Portia Kimble, sole proprietor of a hair salon in Hoover, Alabama, was encouraged to apply for a PPP loan by several peers. "I had a little savings, but didn't know how long that would last," she said. HOPE Federal Credit Union was able to offer her a \$5,200 PPP loan, which will allow her to weather the financial storm, and hopefully expand her business in the future. "This business, being an entrepreneur, it is a faith business," Kimble says. "God is my source. You don't know how things are gonna go. I'm glad we're still standing."⁶²
9. Brighter Beginnings, is a non-profit with locations in Oakland, Richmond and Antioch, California. Brighter Beginnings has been responding to the needs of families in resource-poor neighborhoods since 1984 by providing tele-medicine services, intensive services to special needs children, and food for families struggling to make ends meet. Unable to obtain a PPP loan from its bank of many years, Brighter Beginnings was forced to furlough its eight-person staff and discontinue its critical community services. After receiving a PPP loan from Self-Help, it was able to bring back all eight staff members and is now supporting over 450 existing and new clients in its communities.⁶³
10. ASI Services is a female person-of-color led non-profit organization that has served the Chicago area for 45 years. Through its 300-person staff, ASI provides quality supportive home-care services to post-acute patients, senior citizens and persons with disabilities; its services are available to persons of all backgrounds, but approximately 95% of its clients are people of color. Even though ASI had an existing banking relationship, it was unable to obtain a PPP loan from its bank and turned to Self-Help. ASI noted that the PPP loan has provided it a "runway to last through the summer," allowing ASI to continue providing vital services and continue paying all 300 of its employees.⁶⁴
11. Kiddie World Child Development Center is a child-care provider in rural eastern North Carolina. With an eight-person staff, this female person-of-color led nonprofit serves essential workers by providing child-care for workers of the local chicken factory, hospital and nursing homes. Obtaining a PPP loan from Self Help has allowed Kiddie World to keep its staff employed and continue providing high-quality, safe child-care.⁶⁵

⁶⁰ Kurtzleben, Danielle. National Public Radio. "Minority-Owned Small Businesses Were Supposed to Get Priority. They May Not Have", accessible at <https://www.npr.org/2020/05/12/853934104/minority-owned-small-businesses-were-supposed-to-get-priority-they-may-not-have>

⁶¹ Allam, Chantal. WRAL Tech Wire. "Black-led businesses getting shut out of PPP loan program, owners and experts say", accessible at <https://www.wraltechwire.com/2020/05/22/black-led-businesses-getting-shut-out-of-ppp-loan-program-owners-and-experts-say/>

⁶² Johnson, Roy S. The Birmingham News. "Amid corona-crash, small businesses found savior in smaller banks, fund", accessible at <https://www.al.com/opinion/2020/05/johnson-in-corona-crash-small-businesses-found-savior-in-smaller-banks.html>

⁶³ Story on file with Self Help Federal Credit Union

⁶⁴ Story on file with Self Help Federal Credit Union

⁶⁵ Story on file with Self Help Federal Credit Union

12. Shaw Legal Services is a female person-of-color owned law firm with a staff of six. After finding that she was unable to obtain a PPP loan from her business and personal lender of over 20 years, this Chicago-area small business owner learned about Self-Help. Her PPP loan has enabled her to keep all six employees on payroll, and to provide low-cost or pro bono legal services to help small business clients that were unable to obtain PPP funding in Round 1 negotiate out of leases and contracts they are no longer able to honor.⁶⁶

⁶⁶ Story on file with Self Help Federal Credit Union

Opinion: Small business owners face inequality during coronavirus

Shawn Wooden and Jim Himes

April 18, 2020 Updated: April 18, 2020 10 a.m.

With growing income inequality and wealth disparities it is critical, now more than ever, for the government to get resources to the communities that need them most. As state treasurer and a member of Congress, we are sounding the alarm on the Payroll Protection Program (PPP) and the federal government's small business response to the COVID-19 pandemic. This has provided essential relief to many, but has altered the landscape for the worse of what our small business landscape looks like for the next generation.

Despite longstanding challenges, the face of American business ownership has changed. Where we once saw a lack of diversity, new small business start-ups from women, minority, and native-owned entrepreneurs outpace all other demographics in the last few years. What we're hearing is borne out by the facts. American Express's 2019 State of Women Owned Business reports that women owned business startups have increased at twice the rate of all new businesses. And half of those women owned businesses are also minority owned. Here in Connecticut, we've spent years building these small business ecosystems because they employ those in our communities and provide important services.

PPP is essential to the survival of small businesses and to ensuring our local economies can recover quickly from this crisis, but only if funds go to the people who truly need them and not just to the well-connected. We fear that many minority and women owned businesses will end up shut out of the Small Business Administration's PPP. We are hearing time and time again of underserved communities lacking access to these lending programs - partially because they didn't have access before this crisis.

The original intent of the PPP was to quickly put funds in the hands of small business owners to keep employees on the payroll, but, just last week, Ruth's Chris Steak House and its 5,000 employees announced that they had received

\$20M from the program. How is it possible that Ruth's Chris can receive these funds but a mom-and-pop restaurant on Main Street would be left to struggle?

Our small businesses in this country and in Connecticut face a disparity in how they are banked and treated daily. Many minority and women owned small businesses have never worked closely with an SBA bank lender and don't have traditional access to capital. Without proper protections, first-time borrowers are at the back of the line and shut out of PPP funds.

Now with the initial allocation of PPP funds exhausted, negotiations are underway to assist these under-resourced and unbanked communities in the next round. Connecticut leaders on the state and federal level must stand up now and demand fairness and smart economic policy.

In Congress, we must have a more focused program to get capital into the hands of community banks, non-bank lenders, and smaller institutions focused on lending to underserved communities. House Speaker Nancy Pelosi and Senate Minority Leader Chuck Schumer are right to call for leveling the playing field for women and minority owned businesses.

Here in Connecticut we must ensure our state programs provide equal access to underserved communities. We must ensure that our banks bring access to capital to Main Street. We're going to work directly with consumer banks to encourage the opening of more branches in underserved communities so we can begin to build vital relationships on the front lines.

The Paycheck Protection Program is leaving too many businesses behind in its current form. Putting more money into the program without essential reforms is not the most effective use of taxpayer dollars. Small business owners in this state and country face an inequality that has been exacerbated by this pandemic. Together, we need to do everything we can to make sure we don't lose these businesses, the backbone of our communities. We have a unique second chance here to make things right. Let's not squander the opportunity.



February 11, 2021

The Honorable Maxine Waters
Chairwoman
U.S. House Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Patrick McHenry
Ranking Member
U.S. House Committee on Financial Services
4340 O'Neill House Office Building
Washington, DC 20024

Re: Reauthorizing the State Small Business Credit Initiative (SSBCI)

Dear Chairwoman Waters and Ranking Member McHenry,

On behalf of [Opportunity Fund](#), a US Treasury-certified Community Development Financial Institution (CDFI) and leader in small business lending, I am writing to express our strong support for the \$10 billion reauthorization of the State Small Business Credit Initiative (SSBCI) in the upcoming COVID-19 relief package. Opportunity Fund's mission is to provide affordable capital to underserved entrepreneurs, like women, minority, or low-to-moderate income (LMI) business owners, who are often left behind by traditional lenders. SSBCI is critical for us to meet the capital needs of entrepreneurs as our nation strives to recover in the months and years ahead.

While the Payment Protection Program (PPP) has been a critical resource for small businesses during this crisis, it is not a long-term solution. SSBCI was originally crafted by Congress in response to the 2008 Great Recession and supported state programs designed to help provide credit and investments in small businesses. From 2011 onward, Opportunity Fund participated as a SSBCI-supported lender and was the most prolific user of the SSBCI Capital Access Program nationally—accounting for over 4,700 loans in California with an average loan size of \$12,000.¹ We have since expanded our lending to 46 states through innovative FinTech partnerships and can significantly scale our lending and impact if SSBCI is reauthorized.

SSBCI leverages significant private sector dollars, gives states flexibility to meet local and regional needs, and is a scalable solution for helping our nation's small businesses recover and grow. Furthermore, it is a tried and true system of ensuring resources reach the smallest and most underserved businesses—those that have been hit hardest by the pandemic and often received little to no PPP funding. According to an analysis from the US Treasury Department, 80% of SSBCI funds supported firms with 10 or fewer employees, and by 2015, 42% of SSBCI-supported businesses were located in LMI communities.²

SSBCI makes it possible for mission-based lenders, organizations who have long served historically disenfranchised communities, to say "yes" to more small businesses and get them the capital they need to survive, re-build, and prosper.

I urge Congress to move swiftly in reauthorizing SSBCI in its latest stimulus package. Thank you for the opportunity to share our expertise and input.

Sincerely,

A handwritten signature in black ink, appearing to read "Luz Urrutia".

Luz Urrutia
Chief Executive Officer, Opportunity Fund

¹ US Department of the Treasury. "Program Evaluation of The US Department of Treasury State Small Business Credit Initiative." October 2016, <https://www.treasury.gov/resource-center/sb-programs/Documents/SSBCI%20Program%20Evaluation%202016%20-%20Full%20Report.pdf>.
² Ibid.



ANNUAL REPORT FOR FISCAL YEAR 2020

Office of the Advocate for
Small Business
Capital Formation

U.S. SECURITIES AND EXCHANGE COMMISSION

ABOUT THIS REPORT + ACKNOWLEDGEMENTS

This annual report of the Office of the Advocate for Small Business Capital Formation for Fiscal Year 2020 is being delivered to the Committee on Banking, Housing, and Urban Affairs of the U.S. Senate and the Committee on Financial Services of the U.S. House of Representatives in accordance with Section 4(j) of the Securities Exchange Act of 1934 (the Exchange Act), as amended by the SEC Small Business Advocate Act of 2016, 15 U.S.C. § 78d(j)(6).

Pursuant to Section 4(j)(6)(D) of the Exchange Act, this Report is provided directly to the committees of Congress without any prior review or comment from the Commission, any commissioner, any other officer or employee of the Commission, or the Office of Management and Budget. It does not necessarily reflect the views of the Commission, the Commissioners, or staff of the Commission.



The work of the Office is possible only through the support of our talented and passionate colleagues across the agency. The Office owes special thanks to our colleagues who provided resources for this Report, including the Division of Economic and Risk Analysis for providing data to quantify the state of small business capital formation and contextualize issues, and the Office of Public Affairs for making our written product for this report visually engaging. We particularly thank the following individuals: Daniel Bresler, Vladimir Ivanov, Andy Kim, Angela Huang, Olga Itenberg, Rey-Er Lee, Wei Liu, Chris Onrubia, Narahari Phatak, Zehra Sikandar, and John Zheng.

Message from the Advocate



2020 is the year that none of us could have predicted. The challenges of the COVID-19 pandemic have been—in a word—disastrous for small businesses. Since March, our team has been fully engaged in supporting small businesses and their investors as they navigate new waters: closed doors, loss of foot traffic, sudden drops in revenue, changing consumer behavior, and of course challenges in raising capital.

Many have commented on the incredible companies that rose from the ashes of the last recession, some of whom have become household names and created significant wealth for their investors. I am optimistic about the entrepreneurs who envision new companies borne out of this pandemic, as well as the success stories of some companies and sectors who are thriving. However, I am also keenly aware of the present day needs of the myriad of small businesses working to navigate a winding path out of this COVID-19 maze. Access to investor capital will no doubt be a critical element in success for many who weather the current challenges.

In addition, 2020 has cast a brighter spotlight on the racial inequities that permeate our society, and as a result, our markets. Focusing on the unique challenges faced by underrepresented founders and their investors is hardwired into our Office's mission. While we by no means view access to investor capital as a panacea cure to a systemic challenge, it is clear that minorities and women are not on level playing field with obtaining funding, a topic meriting further examination and action.

Much like last year's inaugural annual report,¹ this year's report highlights how we have approached our mission over the past fiscal year, complemented by an even more robust [State of Capital Formation](#) section that paints the picture of how capital is being raised and by whom, and begins an exploration of the impacts of the COVID-19 pandemic.

Our team commends the Commission for its recent actions to support capital formation, and we look forward to continuing to collaborate on practical solutions that support those who need us most: our small businesses and their invaluable investors.

MARTHA LEGG MILLER
Director
Office of the Advocate for Small Business
Capital Formation

Breaking Down Our Long Title

An independent office housed within the U.S. Securities and Exchange Commission, created by Congress via special legislation

One called to use your voice for others, derived from Medieval Latin

Office of the Advocate for Small Business Capital Formation

From start-ups to small cap, “small” is relative for the SEC’s newest Office, which supports emerging, privately-held companies up to small public companies

The deployment of productive capital by informed investors to create economic growth

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About the Office

Congress created the Office to provide a dedicated champion to smaller companies accessing critical capital to build, grow, and thrive. The Office operates pursuant to sections 4(j) and 40 of the Securities Exchange Act of 1934 (15 U.S.C. §§ 78d and 78qq), as added by the SEC Small Business Advocate Act of 2016 (P.L. 114-284) and amended by the Small Business Access to Capital after a Natural Disaster Act (title IX of division S of Public Law 115-141) (collectively, the Small Business Advocate Act).²



The Office hosted an event at Morehouse College in Atlanta, GA in October 2019 highlighting success stories of entrepreneurs of color.

The Office officially commenced operations in January 2019. As an independent office reporting directly to the Commission, the Office is statutorily charged with the following functions:

- Assisting small businesses and their investors in resolving significant problems they may have with the SEC or with self-regulatory organizations (SRO);
- Identifying areas in which small businesses and their investors would benefit from changes in SEC regulations or SRO rules;
- Identifying problems that small businesses have with securing access to capital;
- Analyzing the potential impact on small businesses and their investors of proposed SEC regulations and SRO rules;
- Conducting outreach to small businesses and their investors to solicit views on capital formation issues;
- Proposing appropriate regulatory and legislative changes to the SEC and Congress to mitigate problems identified with small business capital formation and to promote the interests of small businesses and their investors; and
- Consulting with the Investor Advocate on such regulatory and legislative changes and other small business issues.

The Office also proactively works to identify any unique challenges faced by minority-owned, women-owned, rural, and natural disaster area small businesses and their investors.

Our Advocacy Team



MARTHA LEGG
MILLER
Director



SEBASTIAN GOMEZ
ABERO
Deputy Director



DEAN A.
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Special Counsel



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Attorney



JENNY J. CHOI
Attorney



JULIE ZELMAN
DAVIS
Senior Special Counsel



JESSICA W.
MCKINNEY
Special Counsel



JENNY RIEGEL
Policy Manager



MALIKA SULLIVAN
Executive Assistant



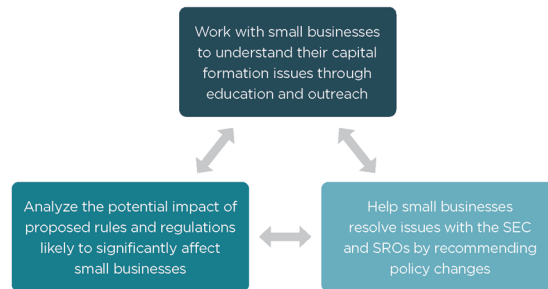
TODD VANLAERE
Law Clerk

Scope of Small Businesses

The Office supports a spectrum of small businesses and their investors, from emerging, privately-held businesses to publicly traded companies with less than \$250 million in public market capitalization.³ Based upon commonalities in sources of capital and issues faced, the Office has segmented its target market into three categories of businesses and their corresponding investors: small and emerging businesses, mature and later-stage businesses, and small public companies.

Our Mission

The Office's mission is to advocate for small businesses and their investors to foster better access to capital markets, strengthening the voice of small business within the SEC and the broader regulatory landscape.



Core Tenets

The Office adheres to the following core tenets in approaching its delivery of services and solutions to small businesses and their investors:

- Small businesses are job creators, generators of economic opportunity, and fundamental to the growth of the country.
- One size does not fit all for small businesses.
- Good work has been done by the SEC, but we are not done and should continue to evolve as the market demands.
- Small business policy should facilitate trust and confidence in capital markets to encourage efficient allocation of investment dollars.
- We serve as a collaborator with, and contributor to, other SEC divisions and offices and SROs, not as an auditor.

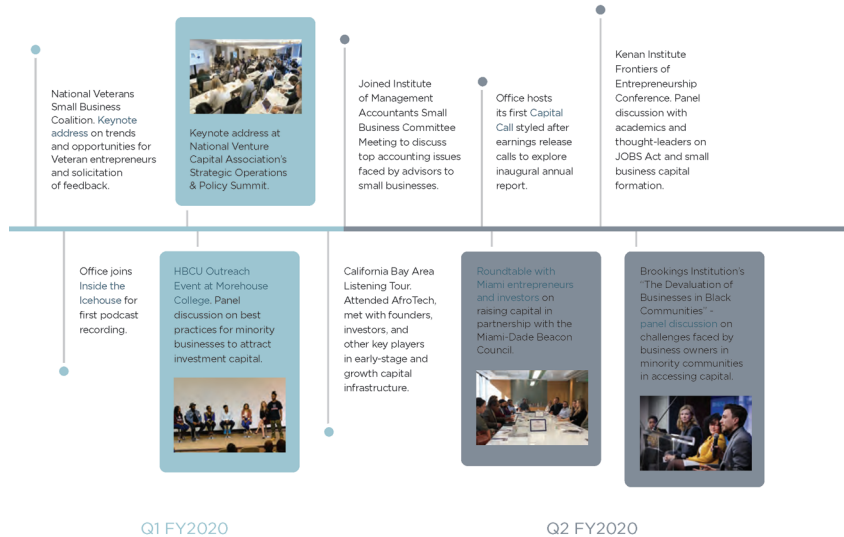
Values

The Office is guided by four core values:

- **ACCESSIBILITY** — We engage with both small businesses and their investors, as well as with the SEC, SROs, Congress, and other agencies on a regular basis through a variety of channels.
- **TRANSPARENCY** — We are visible and open in our approach to supporting small businesses and their investors.
- **PRAGMATISM** — We approach problems with a solution-oriented mindset by making practical recommendations.
- **EFFICIENCY** — We operate like a lean start-up, maximizing resources and focusing activities where the Office can have a measurable impact.

Highlights from Fiscal Year 2020

In addition to hundreds of meetings, phone calls, emails, and cups of coffee shared with individuals across the small business ecosystem, we have sought out opportunities to engage with diverse groups of small business thought leaders—our Office's customers—through events and speaking engagements, that can reach broad networks of potential beneficiaries of our Office's products, programs, and services. Some of the events in which we have engaged this year include:

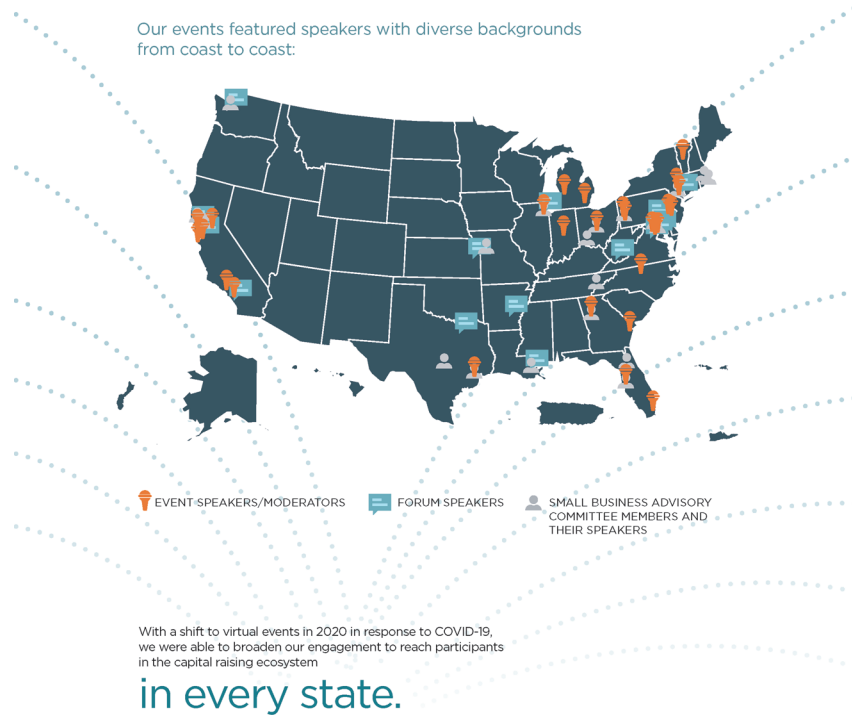




Outreach and Engagement

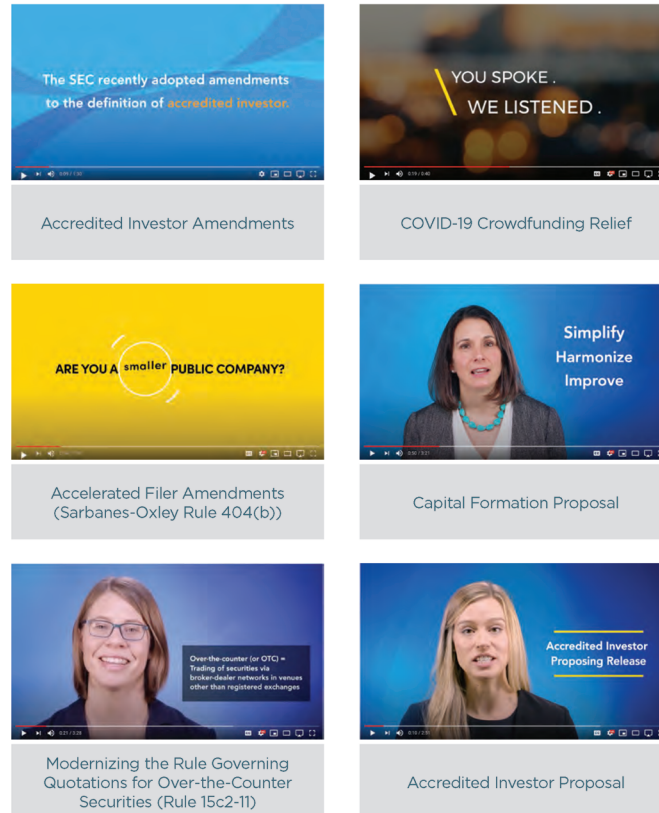
Through public events, we hear perspectives from across the United States on topics ranging from rulemakings, to changing trends in capital raising, to unique challenges and opportunities of demographic groups and different geographic regions. Our outreach and engagement inform the Commission's policymaking process by engaging directly with small business ecosystem participants who are navigating our regulatory requirements to provide timely, practical feedback.

Our events featured speakers with diverse backgrounds from coast to coast:



Engaging with Video Content

The Office continued producing short executive summary videos that highlight recent changes to the capital formation rules impacting small businesses and their investors. These videos have made what are otherwise often complex rules more accessible to small businesses and their investors, who in a few minutes can evaluate the potential impact of rules and whether they would like to engage more deeply in the comment process. Some of the Office's FY2020 videos include:



Small Business Forum

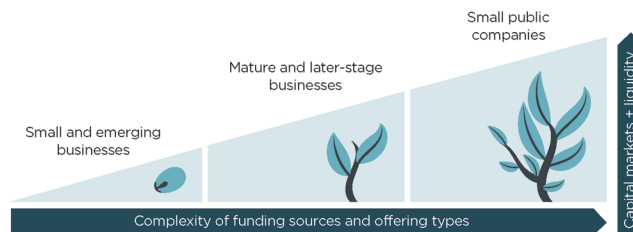


The Office hosted the SEC's 39th annual Government-Business Forum on Small Business Capital Formation completely virtually on June 18, 2020. The Forum is a unique event where members of the private and public sectors gather to craft suggestions for securities policy impacting emerging businesses and their investors, from startups to smaller public companies. The Office assumed responsibility for the Forum beginning in 2019 under the Small Business Advocate Act. The 2020 virtual Forum resulted in an inclusive event that engaged entrepreneurs, investors, market participants and other thought leaders from across the country. Video archives of the keynote addresses and spotlight discussions are available in the Office's Forum video gallery. On September 14, 2020, the [Forum report](#) was released and delivered to Congress summarizing the proceedings and recommendations of the participants.⁴

Virtual Engagements

In FY2020, our Office sought to supplement our in-person outreach events with broadly accessible virtual events that would allow our Office to engage with businesses, investors, and other market participants across the country. From our Office's first podcast interview to our first Capital Call, we expanded avenues for more voices to be heard.

Following the onset of COVID-19, the Office pivoted outreach strategies in March to engage with the market through an entirely virtual outreach strategy. The Office launched a series of "virtual coffee breaks"⁵ aimed at gathering thought leaders to discuss timely topics impacting segments of the capital formation ecosystem and spark engaging and accessible conversations on capital raising challenges.



Virtual Engagements FY2020

PODCASTS

- Inside the ICE House: "A Champion for Small Businesses in Washington"
- WOCStars: VCs off the Record: "Say What? The Truth about What the Heck the SEC Really Does"
- Superwomen with Rebecca Minkoff: "Getting Comfortable Working in Ambiguity"

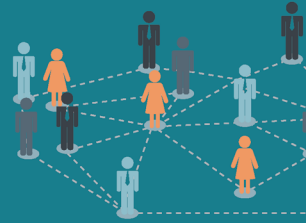
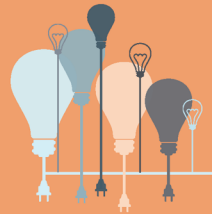


ROUNDTABLES & WEBINARS

The Office presented at a number of roundtables and webinars to solicit feedback and engagement on capital formation. Audiences included:

- Smaller manufacturing companies
- Management accountants working with smaller public companies
- Smaller public funds
- Attorneys to small businesses and their investors
- Entrepreneurship support organizations
- Federal agencies working on capital access for entrepreneurs.

2020 SMALL BUSINESS FORUM



"VIRTUAL COFFEE BREAK" SERIES

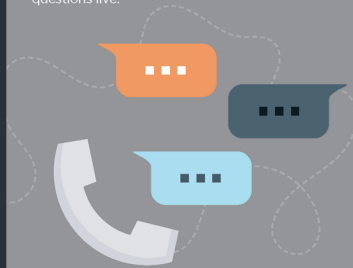
10 wide-ranging events featuring:

- Early Stage Startups
- Middle Market Private Companies and Late-Stage Investors
- Smaller Publicly-Traded Companies
- Minority Founders and Investors
- Women Founders and Investors
- LGBTQ+ Entrepreneurs
- Minority Financial Professionals
- Angel Investors



CAPITAL CALL

Styled after public companies' earnings release calls, this virtual meeting covered what is happening with capital raising from startup to small cap and gave the public a chance to ask questions live.



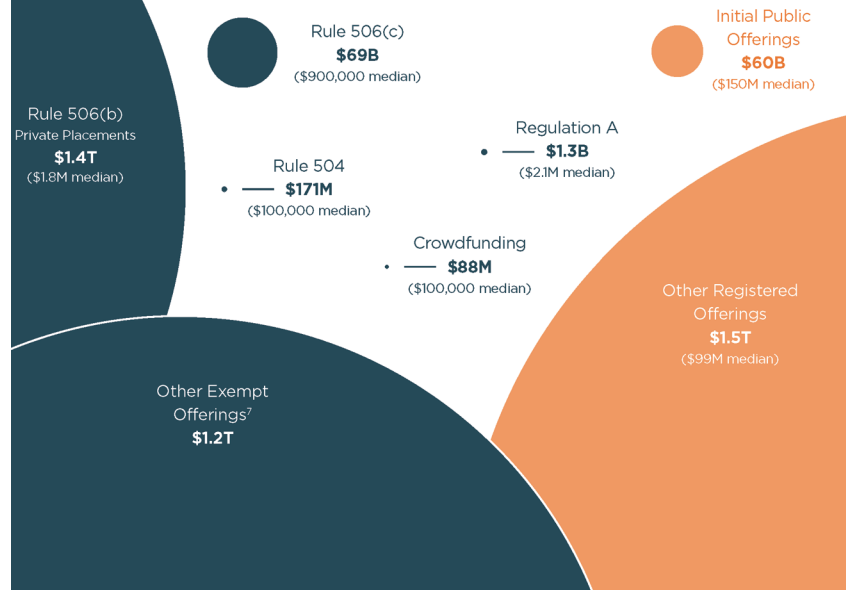


State of Small Business Capital Formation

The data provided in this Report is derived from a combination of public filings with the SEC, as analyzed by the SEC's Division of Economic and Risk Analysis (DERA), and is supplemented with figures and findings from third parties. In doing so, we hope to provide a snapshot view of the state of U.S. small business capital formation, amalgamating many important pieces of the capital formation story into one resource to aid in evaluating the current flow of investment capital between small businesses and investors. The data supplements anecdotal evidence and helps quantify the successes and challenges in small business capital formation nationwide. Unless otherwise indicated, the data period utilized for DERA data is July 1, 2019 to June 30, 2020 and covers U.S. businesses only.

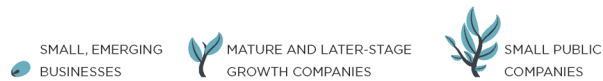
New this year, we have highlighted some of the initial reported impacts of COVID-19 that have been felt across the country. In addition, we have expanded the data and analyses on demographic trends. Using data, we can better identify what tools, strategies, and approaches would be most impactful in crafting policy solutions.

What regulatory pathways are companies using to raise capital?⁶

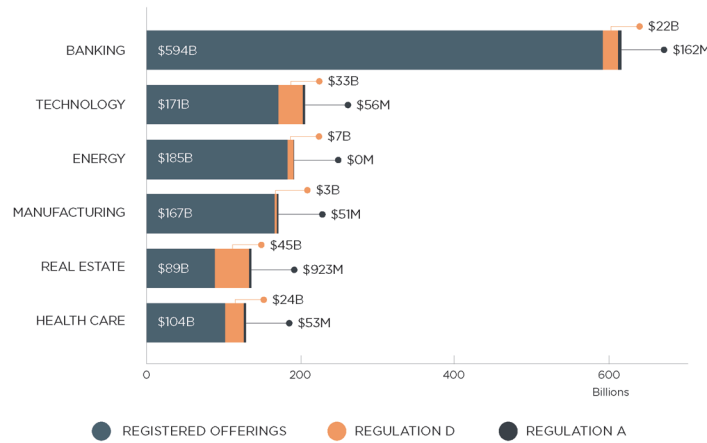


What are the primary types of offerings and what companies are using them?

OFFERING TYPE	IN A NUTSHELL	TYPICAL CO. PROFILE
Equity Crowdfunding <i>Regulation Crowdfunding</i> ⁸	Raising up to \$1.07 million from many investors online. In 2021, the \$1.07 million limit will be raised to \$5 million. ⁹	
Limited Offerings <i>Rule 504 of Reg D</i> ¹⁰	Raising up to \$5 million from investors, often with whom the company has a relationship. In 2021, the \$5 million limit will be raised to \$10 million. ¹¹	
Intrastate Offerings <i>Section 3(a)(11) and Rules 147 and 147A</i> ¹²	Raising capital locally according to state law exemptions, which generally cap the offering at between \$1 million to \$5 million, depending on the state.	
Private Placements <i>Rule 506(b) of Reg D or Section 4(a)(2)</i> ¹³	Raising unlimited capital from wealthier investors with whom the company has a relationship. As of December 2020, the rule will be expanded to include investors that hold certain professional certifications. ¹⁴	   
Accredited Investor Crowdfunding <i>Rule 506(c) of Reg D</i> ¹⁵	Raising unlimited capital from wealthier investors, often online, using general solicitation.	 
Mini Public Offering <i>Regulation A</i> ¹⁶	Raising up to \$50 million from many investors online. In 2021, the \$50 million limit will be raised to \$75 million. ¹⁷	  
Registered Offerings (including Initial Public Offerings) <i>Securities Act of 1933</i> ¹⁸	Raising large amounts of capital through initial public offerings (IPOs) or secondary offerings through a registration statement filed with the SEC.	 

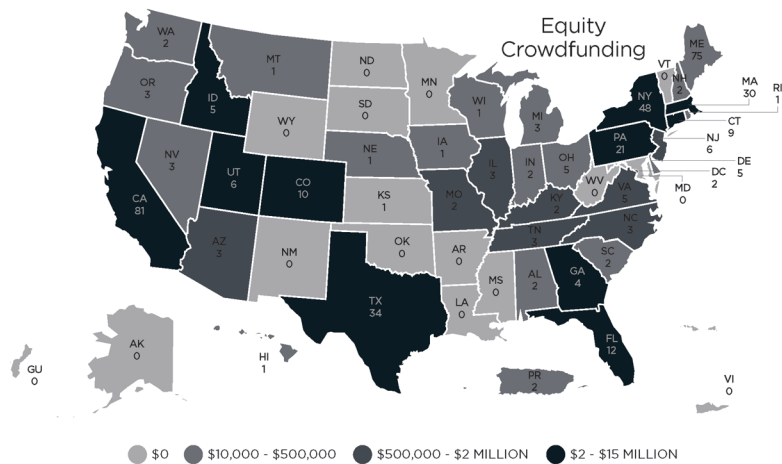
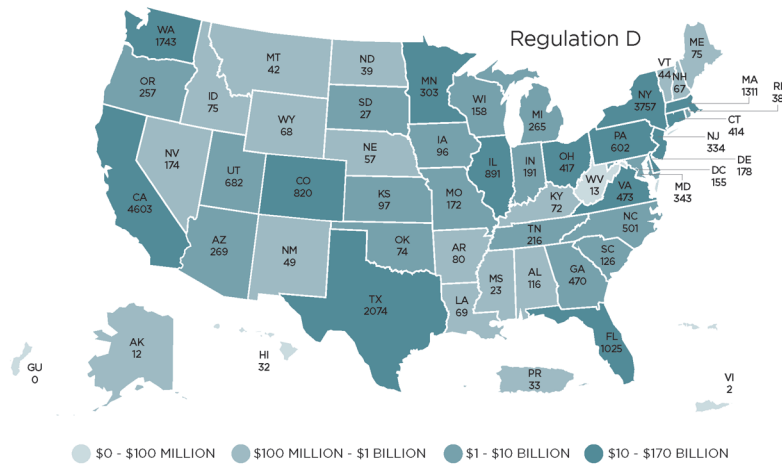


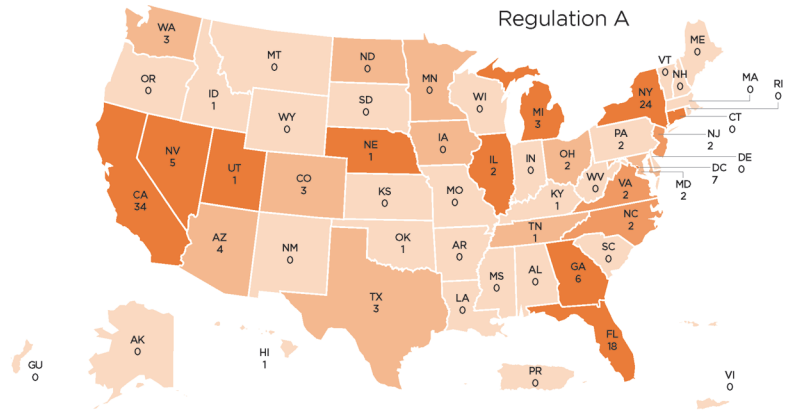
How are different industries using the offering pathways to raise capital (excluding pooled funds)?¹⁹



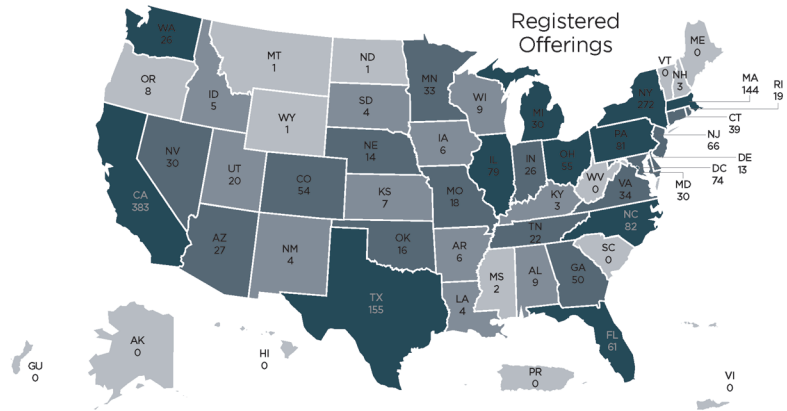
Where are companies raising capital?²⁰

The following maps illustrate the concentration of estimated total capital raised under various different offering types by issuers that report a primary location in the U.S., with the number of offerings conducted indicated on each state.





● \$0
 ● \$10,000 - \$500,000
 ● \$500,000 - \$2 MILLION
 ● \$2 - \$15 MILLION



● \$0 - \$300 MILLION
 ● \$300 MILLION - \$5 BILLION
 ● \$5 - \$20 BILLION
 ● \$20 - \$150 BILLION



COVID-19 and Small Businesses

The COVID-19 pandemic led to an unprecedented health and economic crisis in the United States starting in March 2020. In response to the spreading virus, many households, businesses, and governments took measures to protect public health, including lockdowns and stay-at-home orders. Social distancing and other measures effectively closed many small businesses, leading to a sudden drop in economic activity and historic levels of joblessness.²¹ While this section highlights some of the initial reported impacts of COVID-19 that have broadly been felt across the country, the long-term impacts of the pandemic remain largely unknown. The disruption to small business has been extreme²² and the economic and financial shocks felt since March will likely create lasting fragilities within the small business ecosystem.²³ Subsequent subsections include additional data on the impact of COVID-19 at different stages of the capital raising life cycle and among demographic groups.

While small businesses have endured times of economic distresses in the past—and many noteworthy companies were born during downturns—the devastating impact of the virus and its uncertain duration are unlike any economic shock to date.²⁴



The impact has been felt most acutely by founders and investors in historically underrepresented groups, in emerging ecosystems, and among smaller fund managers.²⁵



Small businesses are particularly vulnerable to social distancing measures.²⁶



Reduction in spending has been particularly harsh at businesses that require in-person interaction, such as retail, entertainment, transportation, personal services, food services and hospitality.²⁷

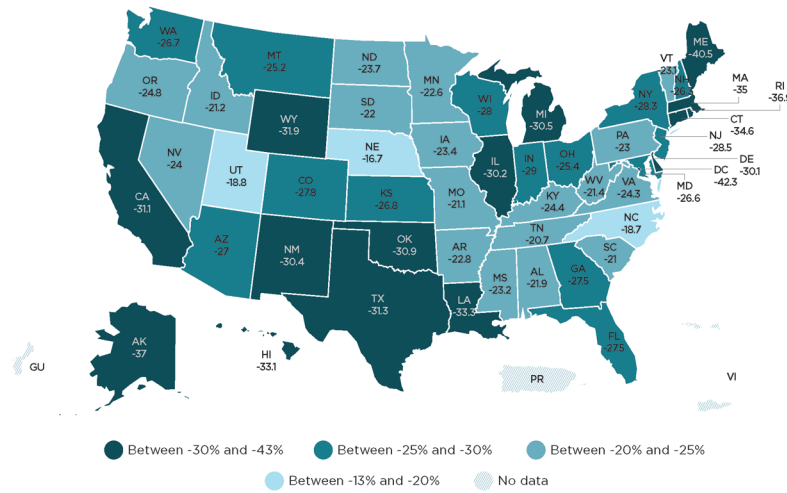
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Small businesses make up nearly half of U.S. private-sector employment and play key roles in local communities. The pandemic poses acute risks to the survival of many small businesses. Their widespread failure would adversely alter the economic landscape of local communities and potentially slow the economic recovery and future labor productivity growth.

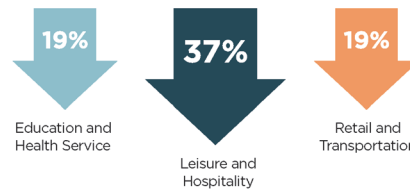
BOARD OF GOVERNORS OF
THE FEDERAL RESERVE SYSTEM®

How has the number of open small businesses changed across the US?²⁹

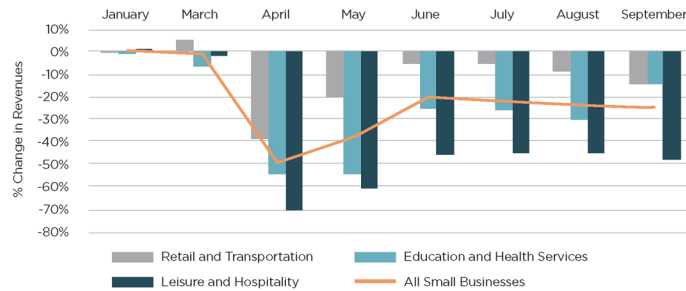
From January 2020 through September 2020, the number of small businesses decreased by 27%. The below map illustrates the percentage change across the country.³⁰



During the same time period, how did the percentages of open small businesses change across different industries?³¹



Of the businesses still open, how have their revenues changed during COVID-19 when compared to January 2020?³²



Access to capital remains a major concern for small business

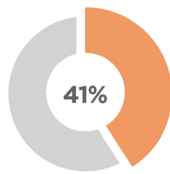


Many small businesses entered the pandemic with enough cash on hand to cover two weeks or less without revenue.³³

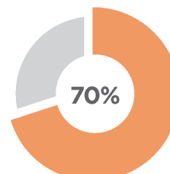


45%

of small businesses needed to reduce their headcount.³⁴



of small businesses planned to use personal savings to reopen their business, and 39% did not know where they would access capital to reopen.³⁵



of small businesses are concerned about financial hardship due to prolonged closures and 58% worry about having to permanently close.³⁶



In response to the COVID-19 pandemic, Congress passed the CARES Act providing \$376 billion in relief for small businesses across the country.³⁷ However, since the start of the pandemic, other bank loans have become increasingly harder for small businesses to obtain as a result of tightening lending standards.³⁸

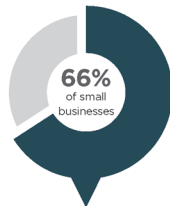
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Much of the contrast in the fortunes of small and large businesses has been driven by differences in the financial resources available to them.

JUSTIN LAHART,
WALL STREET JOURNAL³⁹

How are small businesses responding to the pandemic and social distancing measures?

Many responded by adapting to meet consumer needs. Notably, such adaptations are not available in certain industries, and in some instances small business owners were only able to provide ongoing employment opportunities for certain types of positions.⁴⁰



made significant shifts in products and/or services as a result of the pandemic.⁴¹



65% are doing more business online.⁴²
25% of small businesses increased their use of e-commerce or digital payment options.⁴³

71% of
small businesses found support
in their local communities.⁴⁴

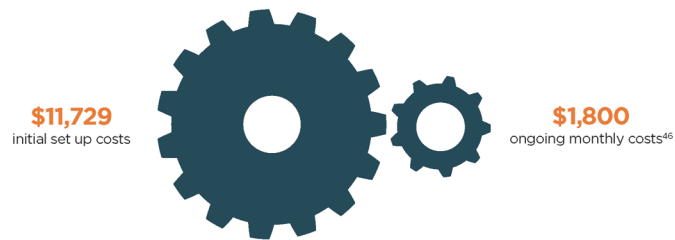




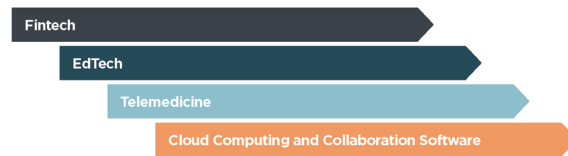
Leadership teams have embraced technology and data, reinventing core processes and adopting new collaboration tools. Technology and people interacting in new ways is at the heart of the new operating model for business—and of creating an effective postpandemic organization.

MCKINSEY & COMPANY⁴⁵

82% of small businesses made workspace changes as a result of the pandemic, costing on average:



The new environment has accelerated adoption of certain innovations in many industries:⁴⁷



In the midst of the pandemic, Americans are starting new businesses at the fastest rate in more than a decade:⁴⁸



some are spotting opportunities for new ideas,



while others are turning to entrepreneurship out of necessity.

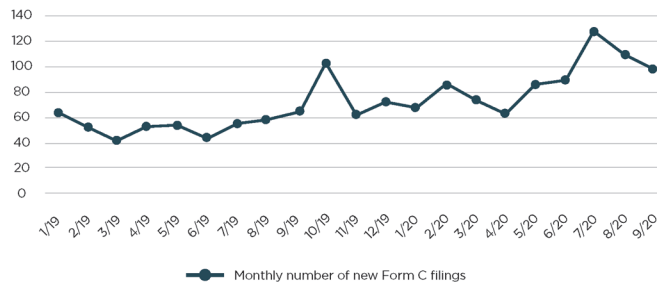
How is capital raising being affected by COVID-19?

Given the impacts of COVID-19 on business operations, the natural question many are asking is how investment capital raising is being impacted? Data on capital raised from investors is often a lagging indicator of activity. Many of the funding transactions that occurred in the second and third quarters of 2020 were negotiated or planned prior to the start of the pandemic or delayed from one quarter to another as a result of the pandemic. The sections that follow highlight comparative data on a quarter-by-quarter basis from DERA that shows recent historic levels of funding by offering type, as well as how that funding is changing. Many experts predict that the impacts on investment capital raising will have wider ripple effects, not capable of being accurately measured by solely looking at the data through September of 2020.

What is happening in crowdfunding?

Since 2016, over **2,600** companies have conducted over **3,000** crowdfunding offerings, raising an average of **\$342,000**.⁴⁹

How has the number of new crowdfunding offerings changed?⁵⁰



During July and August of 2020, companies raised the same amount of capital using crowdfunding (\$48 million)

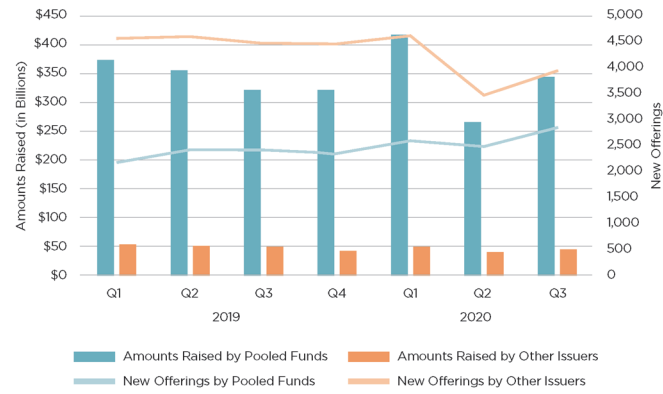


as the first full year (2016-2017) of online fundraising.⁵¹

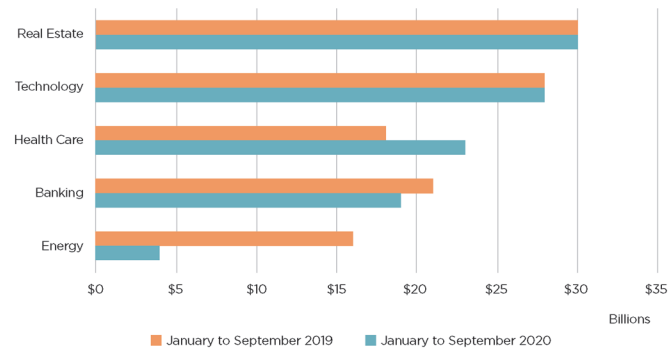
Top 10 industries using crowdfunding by dollars raised⁵²

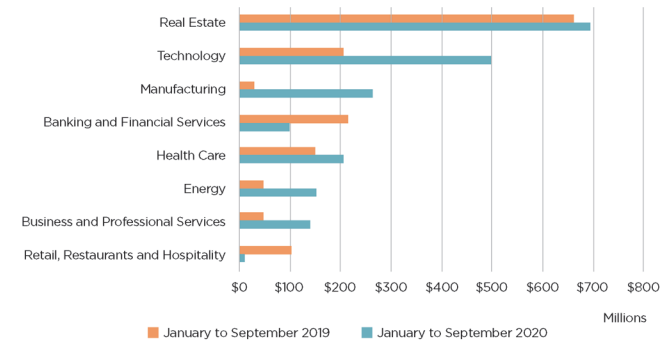


How have Regulation D offerings changed?⁵³



Excluding pooled funds, what are the top industries raising capital through Regulation D?⁵⁴



How have Regulation A offerings changed?⁵⁵What types of businesses are using Regulation A?⁵⁶

What is happening in the initial public offering (IPO) market?

Innovative adaptations related to the offering process have facilitated IPOs despite challenges resulting from COVID-19. One of the biggest changes has been marked by the shift from in-person marketing meetings to virtual roadshow events.⁵⁷ While traditionally issuers and their underwriters traveled across the country and sometimes across continents to pitch the IPO, in the face of the pandemic, companies and investors have quickly adopted virtual roadshows.⁵⁸ Some of the other changes include:



Shorter Roadshows

The average roadshow shortened from 8 days to 4 days.⁵⁹



Decreased Exposure to Market Risk

The reduction in launch time from roadshow to IPO decreased companies' exposure to market risk and volatility.⁶⁰



Cost Savings

Hundreds of thousands of dollars are saved from travel, printing, and employee time on roadshows.⁶¹



Longer Test-the-Waters Meetings

Test-the-waters meetings have lengthened.⁶²



Greater Visibility in Pricing

Prospective investors are indicating interest earlier.⁶³



Increased Accessibility

With video conferencing, companies are expanding geographical reach⁶⁴ and gaining access to a wider pool of investors.⁶⁵



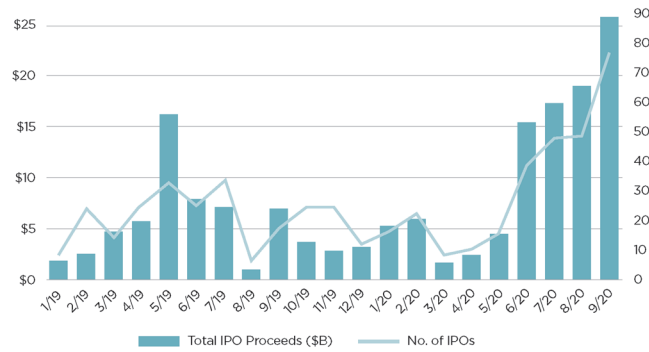
More Sophisticated and Detailed Disclosures

Companies are working to keep investors abreast of new developments as they happen amid the pandemic.⁶⁶

Will these changes become the new standard? Some believe that the IPO process has adapted in ways that will change capital markets for years to come.⁶⁷

Others have cautioned that startups and lesser-known companies may struggle to pique investors' interest without the opportunity to meet investors in person or through an abbreviated schedule.⁶⁸

What is happening with IPO activity?⁶⁹

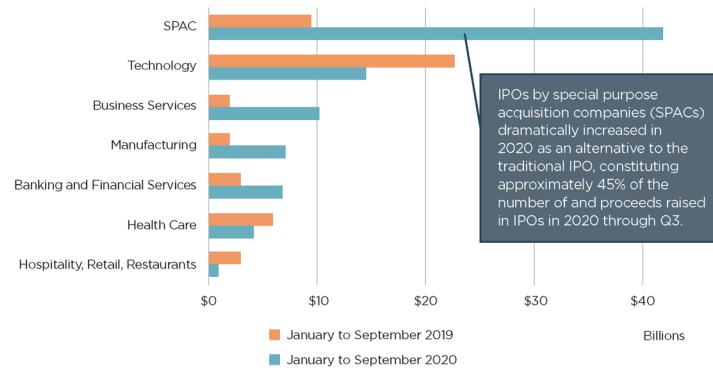


Comparing to the first three quarters of 2019, 2020 has seen a spike in IPOs:⁷⁰



What are the top industries raising capital in an IPO?

Businesses that successfully completed an IPO in 2020 tend to operate in fast-growing industries, quickly pivoted to a virtual environment, and serve a wide array of clients:⁷¹



Small and Emerging Businesses

This segment of companies includes high-growth startups that raise capital to get off the ground and through early prototypes, as well as small businesses that provide local jobs but do not fit the high-growth model that is the target of venture capital (VC) investments.⁷²

Why is access to capital for small and emerging businesses so important?

Small businesses less than one year old have an outsized impact on job creation:⁷³

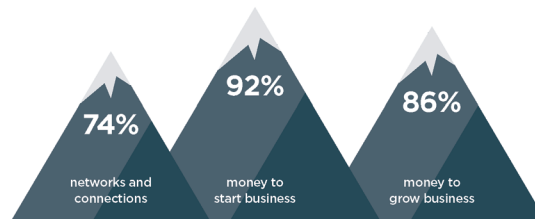


“

Between 90 and 95 percent of entrepreneurs that hire require some amount of financing to start their businesses.

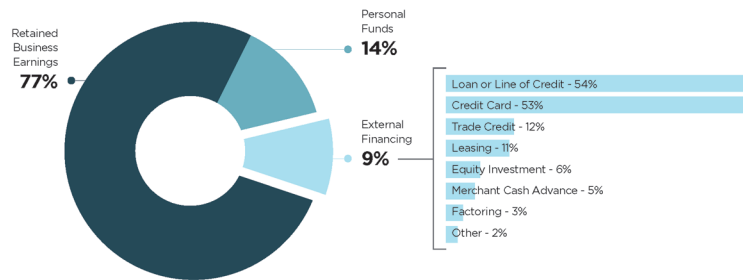
VICTOR HWANG, SAMEEKSHA DESAI,
AND ROSS BAIRD⁷⁴

The vast majority of aspiring entrepreneurs report multiple barriers in accessing capital for their businesses, including the following top challenges according to a recent survey:⁷⁵



What are common sources of capital for small and emerging businesses?

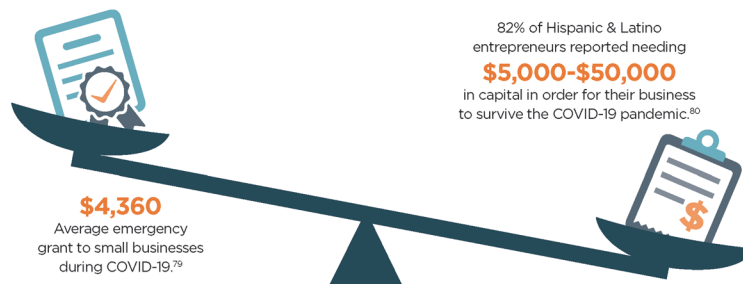
Financing needs vary widely, and funding in the earliest stages when companies are pre-revenue or pre-product development can be difficult to find.⁷⁶ Small and emerging businesses generally raise capital through a combination of funding sources, with the primary sources of funding as follows:⁷⁷



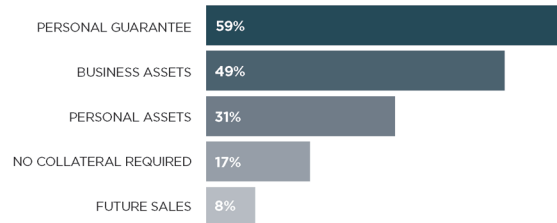
Notably, retained business earnings are generally an option only available to established companies or companies with short product development cycles, and personal funds are only an option for those with existing resources.

What role do grants play in funding small businesses?

Grants are a non-dilutive source of early funding, but they can be time-intensive and may not provide as much capital as companies need to jumpstart growth.⁷⁸ COVID-19 has exacerbated the divide between grant funding available and the capital needs of small businesses:



What sources of collateral are used by small businesses when accessing bank loans?⁸¹



Bank loans may not be a funding option for many small and emerging businesses. During the initial start-up stage, they typically have minimal or no collateral and lack sufficient earnings histories, tax returns, and performance track records for bank underwriting.⁸² In the absence of collateral from the business, banks often rely on information about the founder or entrepreneur, such as personal wealth, income, debt, or home ownership, to determine loan default probability.⁸³

What is the role of community banks?

Community banks are often better positioned to underwrite small business loans because their relationship lending models provide an advantage for pricing lending risks that are unique, infrequent, and localized, including close familiarity with customers, more tailoring of loans, and close geographic proximity to collateral.⁸⁴



Since 1986, there has been a 70% decrease in the number of FDIC-insured banks.⁸⁵

How is crowdfunding used for financing?

Crowdfunding is often used as a broad term that captures different methods of raising funds in which a relatively large number of people make relatively small contributions or investments.



What is the role of angel investors?

Angel investors are generally high net worth individuals who invest their own funds directly in early-stage businesses. Companies receiving angel investments are largely in the development stage and therefore riskier investments.⁸⁶ Recognizing the importance of diversifying, angels often syndicate, which allows them to participate in larger deals and limits their individual check sizes.⁸⁷

What was the scale of angel investing in early-stage companies in 2019?⁸⁸



“

Beyond supporting their own portfolio companies, angels are an integral component of the growth of VC ecosystems. The impact of angel mentorship and networking can be even more influential within ecosystems outside traditional VC hubs.

PITCHBOOK⁸⁹

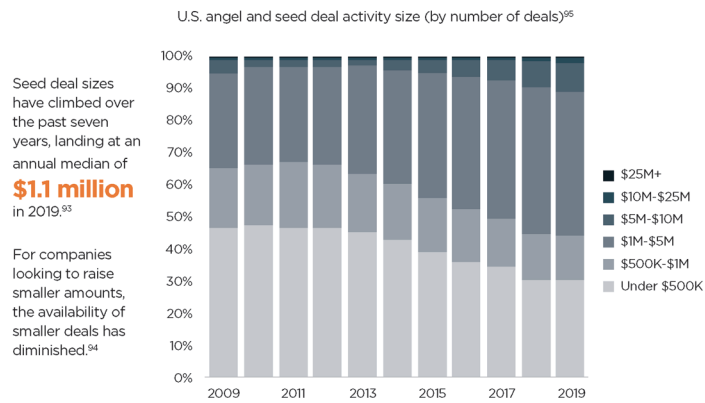
Angels generally invest in businesses located close by.
The distance between the lead investors and
the target business averages only

37 miles.⁹⁰

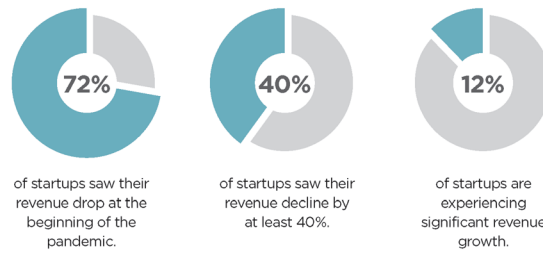


How has seed funding activity changed in recent years?

The seed round is often a company's first official round of funding and consists of a small amount of capital typically used for product development, market research, or business plan development.⁹¹ Seed rounds typically range from \$250,000 to \$2 million.⁹²



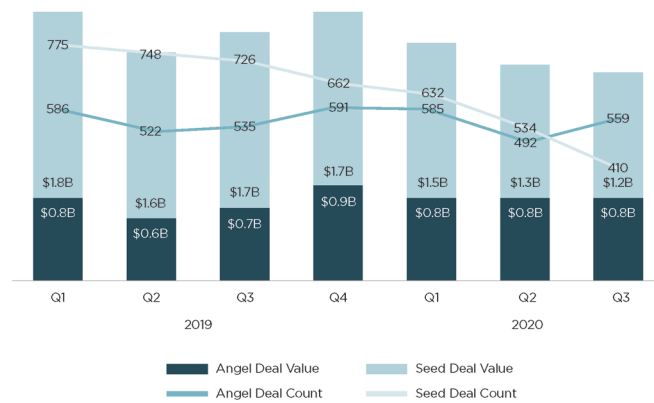
What changes in this market segment have been observed amid COVID-19 since March 2020?⁹⁶



Good and bad news for angel and seed investment activity.



Angel investment activity has remained resilient as seed activity has declined.¹⁰⁰



Mature and Later-Stage Businesses

Companies within this segment of the market are generally growing and looking for larger amounts of capital that can fund operations of scale, ventures into new verticals, and preparation for public markets. Most often their investors are institutional in nature.

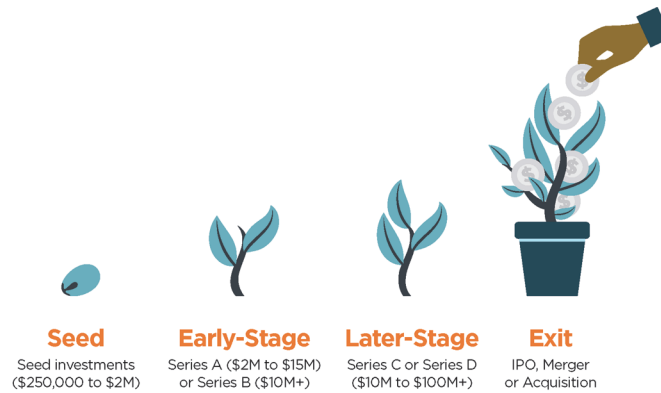
12,207

venture capital (VC) deals in 2019¹⁰¹
(aggregate value of \$136.8 billion)

5,484

private equity (PE) deals in 2019¹⁰²
(aggregate value of \$781.5 billion)

How much are mature and later-stage businesses raising across their lifecycle?¹⁰³



Who invests in mature and later-stage businesses?

Venture Capital Funds

Venture capital funds are generally structured as private funds that invest in early stage companies with high growth potential, taking on a high degree of investment risk in exchange for significant expected investment multiples.



70% of VC funds are concentrated in 3 metro areas.¹⁰⁴



Investments are locked in until a liquidity event.



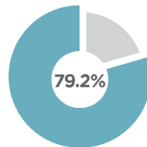
Lifespan to raise capital, enter into, and exit from all investments is limited.¹⁰⁵

Nontraditional Investors

Investors that historically made investments through VC funds as limited partners—such as sovereign wealth funds, corporations, and other institutions—are increasingly making direct investments in mature and later-stage businesses.¹⁰⁶



Average later-stage deal size with nontraditional participation in 2019 was more than 4x the average size of deals without a nontraditional investor.¹⁰⁷



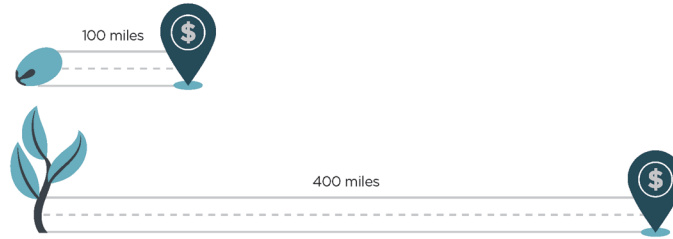
79.2% of VC deal value originated from deals with nontraditionals in 2018 and 2019.¹⁰⁸



Many nontraditionals, especially mutual funds, invest with expectations of capturing returns from an imminent IPO.¹⁰⁹

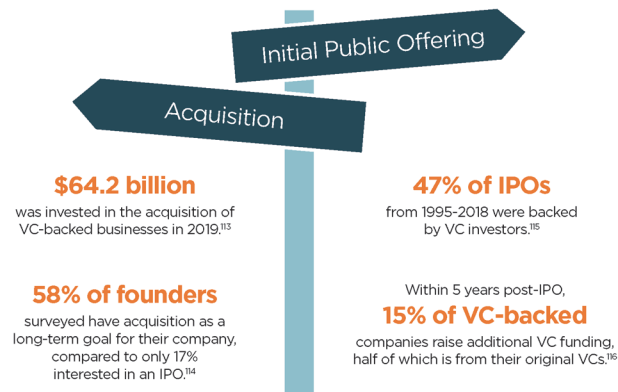
Where do later-stage companies find investors?

Companies looking for seed financings often work through local investor networks first, generally within 100 miles, while later-stage companies generally require larger funding vehicles, and the median distance between the company and lead investor grows to over 400 miles.¹¹⁰ Given the active role most VCs take with their portfolio companies as board members and strategic advisors, proximity makes it easier to monitor and stay engaged with companies through formative milestones.¹¹¹



What pathways to liquidity are available for investors in later-stage companies?

Preferred exit strategies have changed over time. While IPOs were traditionally the most common way to profitably exit an investment, over time an acquisition by a strategic investor or by an existing large company has become the most popular.¹¹²



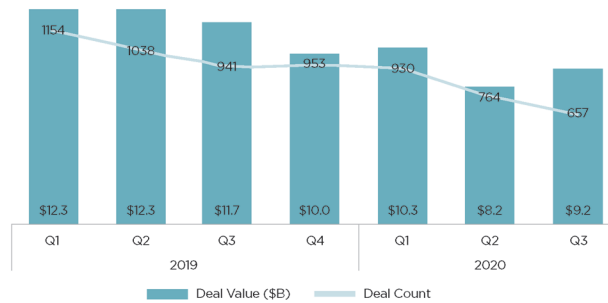
How are mature and later-stage companies and their investors responding to COVID-19?



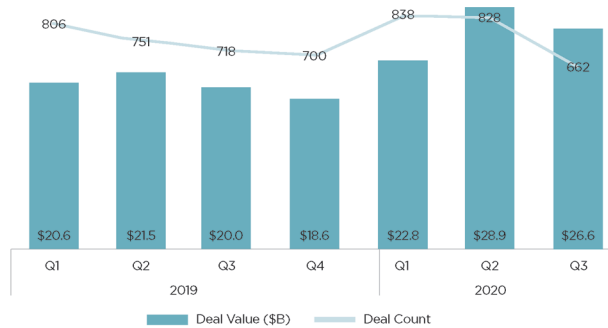
While some funds and portfolio companies have been significantly impacted by the pandemic, initial data suggest that the VC industry in the aggregate has been less affected than other parts of the economy.¹¹⁷ A primary impact of the pandemic has been market uncertainty that is substantially different from the type of uncertainty these founders and investors have historically evaluated.¹¹⁸ Companies have been preparing for long-term impacts by establishing cash reserves and trimming budgets.¹¹⁹

How has the pandemic impacted VC deal activity?

While early-stage VC (Series A and B) started to increase in deal value at the beginning of 2020, deal count continues to decline.¹²⁰

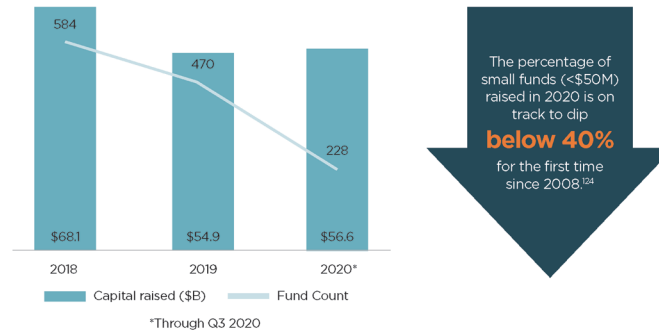


Later-stage VC deal activity (Series C and up) has been more resilient than other stages,¹²¹ which may be a reflection of investors focusing funding on existing portfolio companies rather than new investments:



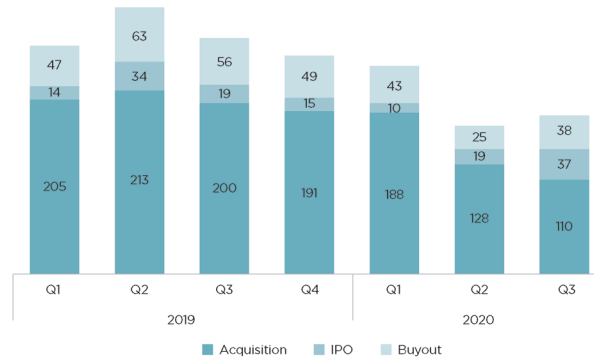
How has VC fundraising activity changed?

Through the third quarter of 2020, overall fundraising activity remained active.¹²² However, since the pandemic hit, there has been a significant drop in first-time funds, which raised only \$1.9 billion across 30 funds through Q3 2020, compared to \$5.3 billion over 81 funds in 2019.¹²³



How has exit activity changed?

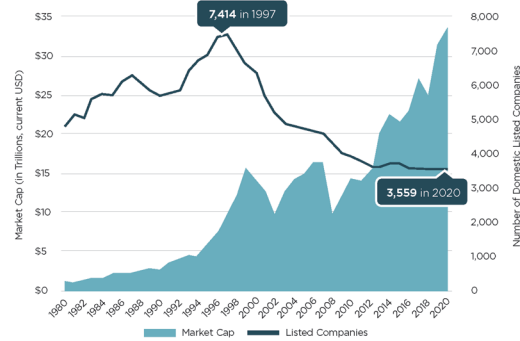
Over the last three quarters, acquisition activity has dropped while IPO activity has increased by deal count:¹²⁵



Small Public Companies

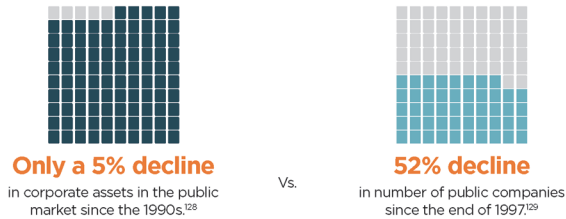
Companies can access broad pools of investors when they conduct public offerings, allowing companies to raise large amounts of capital to fund activities such as research and development, capital expenditures, or debt service. Public offerings also provide liquidity to early-stage investors and publicity for the company's products and services.

How has the prevalence of U.S. publicly-traded companies changed over time?¹²⁶



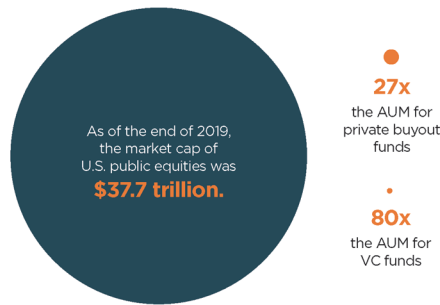
How have corporate assets moved between the public and private markets?

As an alternative to evaluating public market trends by number of listed companies, the public markets have seen a far lower decline when considering the change in public company corporate assets:



How does the size of the public market compare to the private markets?

The size of the U.S. public market is significantly larger than market for private investments via buyout funds and venture capital funds.¹³⁰



The amount managed by U.S. domestic mutual funds far exceeds the assets under management (AUM) and dry powder for both private buyout and venture capital funds.¹³¹



When comparing the average investment returns of private funds over the past three decades using a public market equivalent, buyout funds have outperformed the public markets by a ratio of 1.2,¹³² and VC funds have performed relatively the same as the public markets at slightly above 1.0.¹³³

What has happened with public market offerings from July 1, 2019 through June 30, 2020?¹³⁴



All IPOs:
232 offerings with
\$259M average
proceeds



Small public company
registered offerings:
457 offerings with
\$53M average
proceeds

How has the size of public companies changed over time?

The average market capitalization for a public company has dramatically increased:¹³⁵

\$700 million
in 1976
(adjusted for inflation)



\$10.4 billion
in 2020



Small companies that remain increasingly struggle to grow to a larger size, often referred to as the “small size trap.”¹³⁶ The percentage of small companies that grew into medium or large companies has been cut in half since the 1990s.¹³⁷

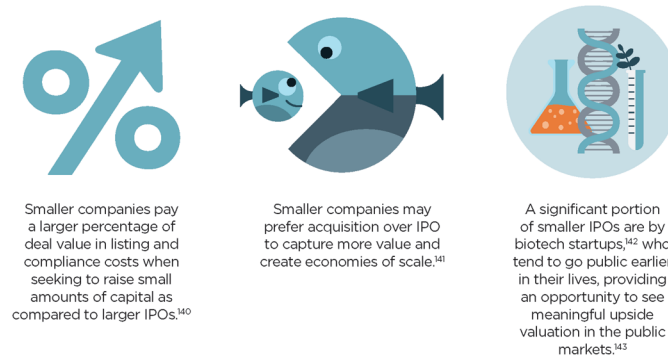


What are the costs and benefits founders and their investors typically weigh with becoming a public company?¹³⁸



How do smaller IPOs differ from larger IPOs?

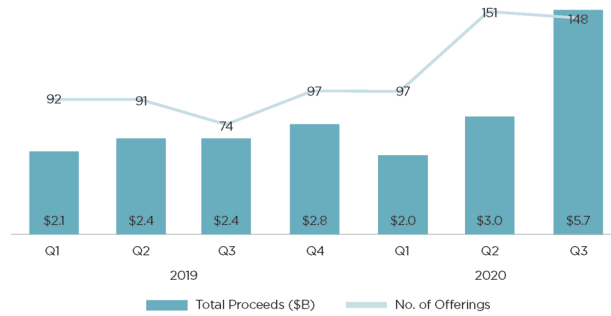
Smaller IPOs have driven a substantial amount of aggregate and sustained performance in the U.S. equity markets.¹³⁹



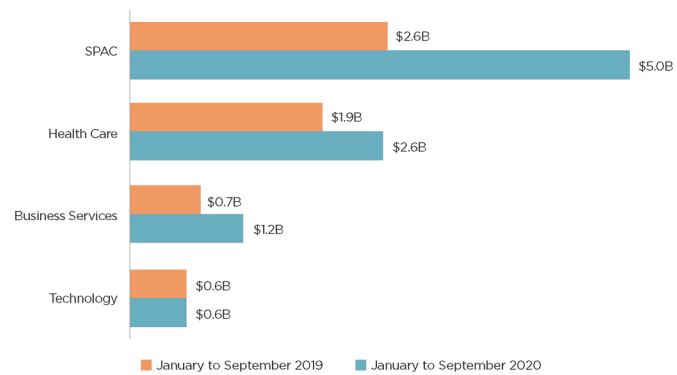
What is the significance of companies staying private longer?

The propensity to list is estimated to be half of what it was in the mid-1990s.¹⁴⁴ Staying private longer has been linked with more innovative pre-IPO companies, in terms of the quantity, quality, and the fundamental nature of their research,¹⁴⁵ as well as the creation of more wealth for private market investors and less for retail investors in the public market.¹⁴⁶

How much capital are small public companies raising in registered equity offerings?¹⁴⁷



How did registered equity capital raising change between 2019 and 2020 for small public companies based on industry?¹⁴⁸

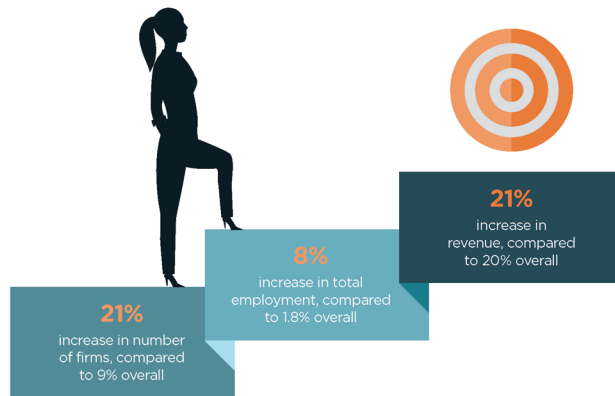




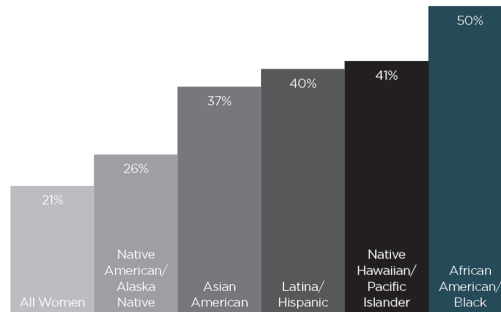
Founder Demographics and Capital Formation

Women-Owned Businesses

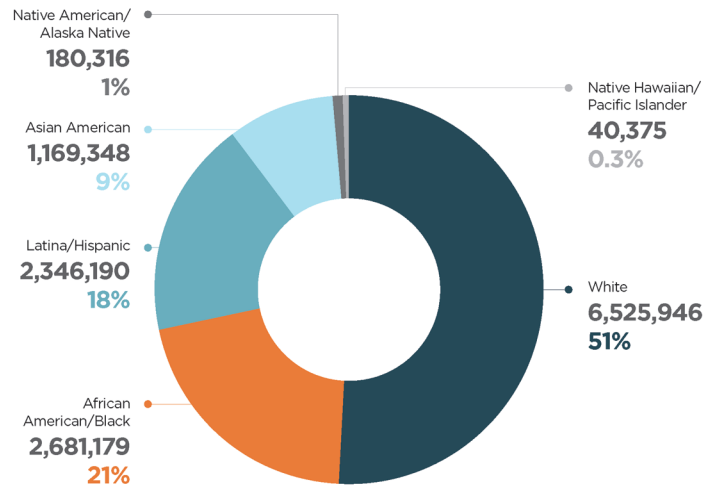
From 2014 to 2019, women-owned businesses have experienced significant growth compared to all businesses in the country:¹⁴⁹



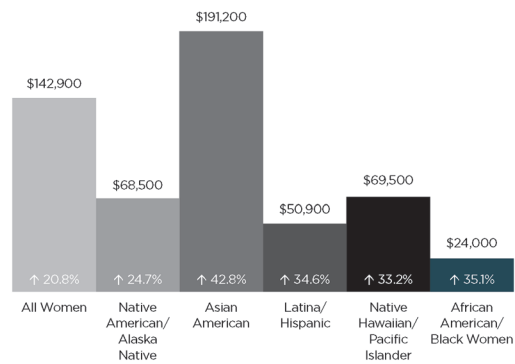
From 2014 to 2019, minority women-owned businesses grew at an even faster rate than women-owned businesses as a whole:¹⁵⁰



The almost 13 million women-owned businesses include significant minority ownership:¹⁵¹



However, while all revenues have increased since 2014, average revenues in 2019 among women-owned businesses varied widely by racial and ethnic groups:¹⁵²



How are women founders faring with capital raising?

Women constituted
27.6%
of entrepreneurs seeking capital in 2019



and had an investment yield rate of
21.4%

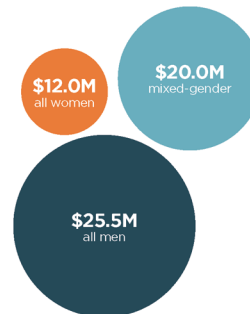


(up from 17.5% in 2018)

compared to a baseline rate of
30.7%
(up from 23.2% in 2018)¹⁵³



The median VC pre-money valuation varied by gender in 2019, with mixed-gender teams experiencing the most rapid year-over-year growth:¹⁵⁴



Additionally, women founding teams tended to raise less per funding round in 2019 than their male founding team counterparts:¹⁵⁵

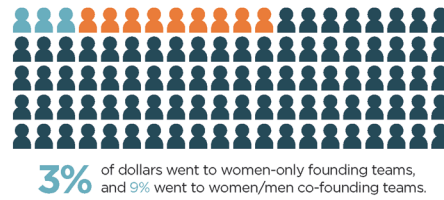
Median Seed Round



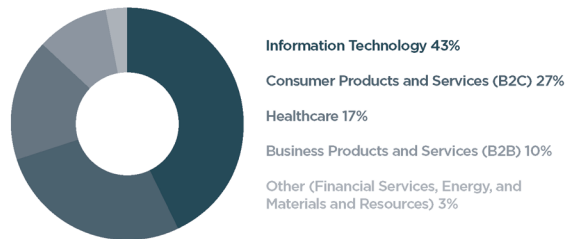
Median Series A



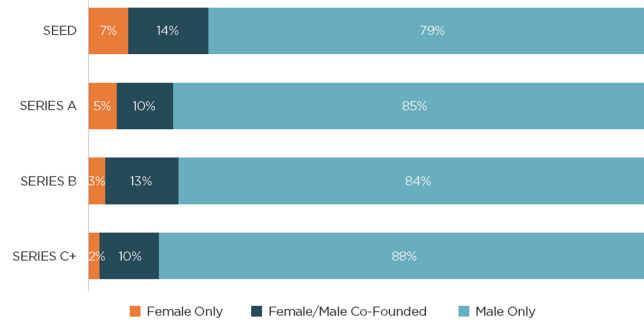
Women-founded companies received only 12% of VC dollars in 2019 for a total of \$26.6 billion, consistent with 2017 funding levels but down from the 2018 high water mark of 17%.¹⁵⁶



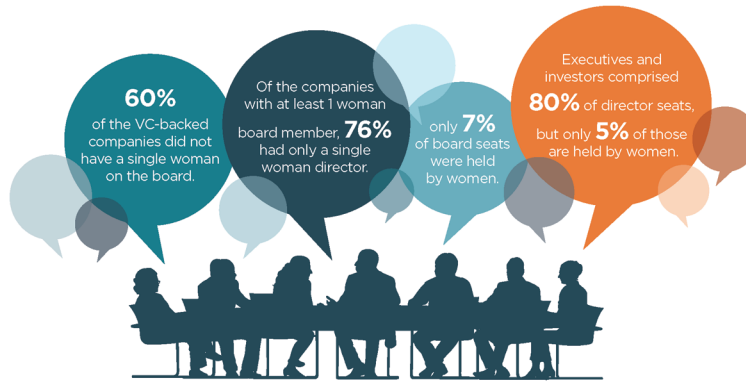
Women-founded startups receiving their first financing round are dispersed across a number of industries.¹⁵⁷



By proportion of total dollar volume raised, women raised successively less at each stage of funding in 2019.¹⁵⁸

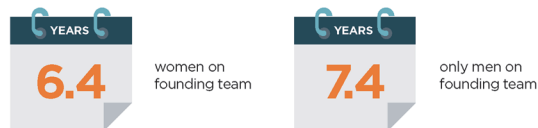


Women are also underrepresented in leadership roles in mature and later-stage companies. According to an analysis of 200 of the most heavily-funded private VC-backed companies:¹⁵⁹

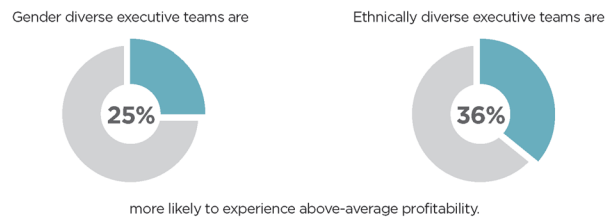


Why should investors care about investing in women-owned businesses?

Companies with women on their founding teams on average exited 1 year faster than all-men founding teams, returning capital back to investors faster:¹⁶⁰



Research on 1,000 large companies with annual revenues over \$1.5 billion found that companies in the top quartile of diversity outperform the bottom quartile:¹⁶¹



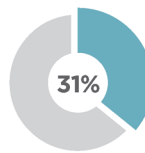
Women Investors in Small Businesses



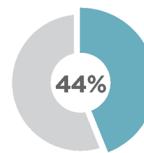
Women are underrepresented in investor leadership roles within the VC industry.¹⁶³



of decision-makers in VC firms are women.



of top quartile VC firms lack women decision-makers in GP leadership.



of LP firms lack women decision-makers.

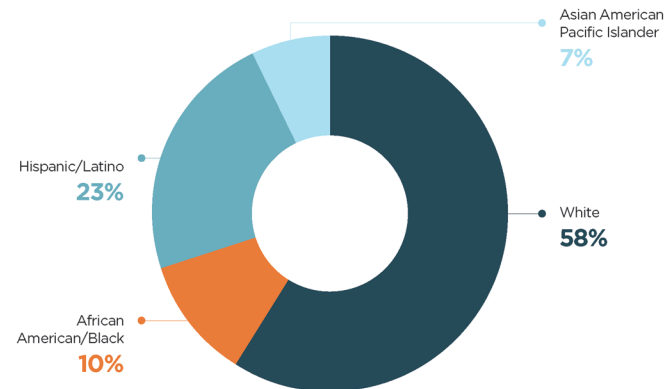
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Given studies that emphasize how female VC partners are twice as likely to invest in startups with at least one female founder and more than three times as likely to back startups with female CEOs, the discrepancy at the funder level is critical in this equation.

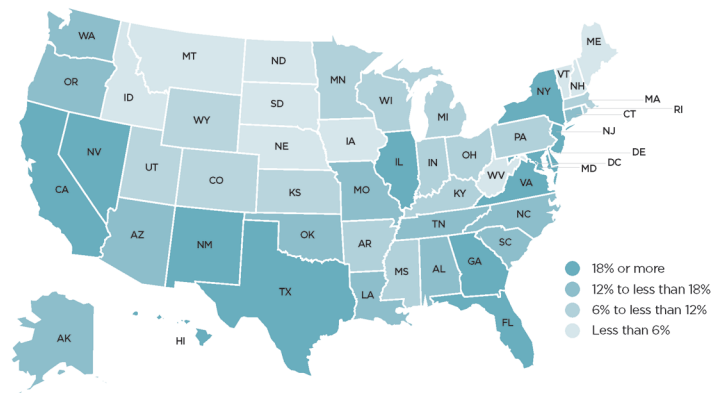
PITCHBOOK & ALL RAISE¹⁶⁴

Minority-Owned Businesses

New entrepreneurs in 2019 by race and ethnicity:¹⁶⁵



What percentage of employer firms are owned by minorities?¹⁶⁶



Minority-owned employer businesses have a significant impact on the economy:¹⁶⁷

1.1 million
employer businesses



8.7 million
workers employed



99.99%
are small businesses



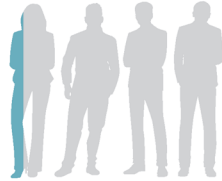
“

Black people represent 12.7% of the U.S. population but only 4.3% of the nation's 22.2 million business owners. Because Black and White people show no underlying differences in characteristics that predict entrepreneurial success, this gap represents major untapped entrepreneurial potential across U.S. cities.

ANDRE PERRY, JONATHAN ROTHWELL
AND DAVID HARSHBARGER,
THE BROOKINGS INSTITUTION¹⁶⁸

What challenges do minority-owned businesses face in accessing capital?

Minorities constituted
9.3%
of entrepreneurs seeking capital in 2019



and had an investment yield rate of
28.2%



(up from 22% in 2018)

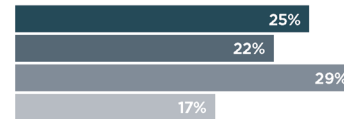
compared to a baseline rate of
30.7%
(up from 23.2% in 2018)¹⁶⁹



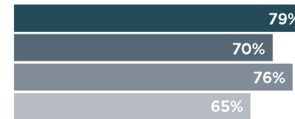
Minority-owned businesses continue to face challenges accessing financing and are more likely to be financially constrained.¹⁷⁰

■ Hispanic/Latino ■ Asian American/Pacific Islander
■ African American/Black ■ White

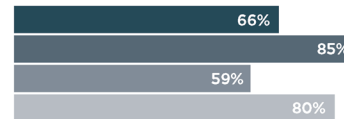
Minorities are likely to use personal funds as their primary business funding source



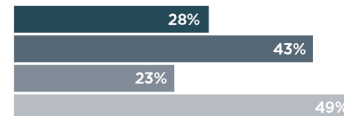
and are more likely to use personal funds in response to financial challenges.



Credit approval ratings are generally lower for minorities



and when approved, minorities are less frequently approved for the full amount of their loan.

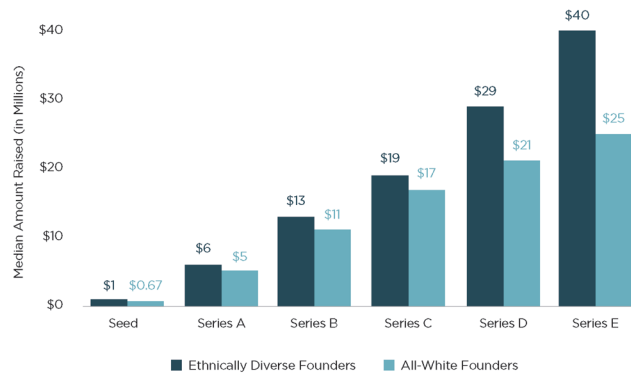


How are minority founders faring with capital raising?



23% of VC-backed founders are African American/Black, Hispanic/Latino, Middle Eastern, or Asian American.¹⁷¹

While all-white founding teams raise the majority of funding rounds, when diverse founding teams do raise capital from VCs, they tend to raise more:¹⁷²



Why should investors care about investing in minority-owned businesses?



Pattern matching persists:

Founders are **21%** more likely to be funded by an investor of the same ethnicity than of a different ethnicity.¹⁷³

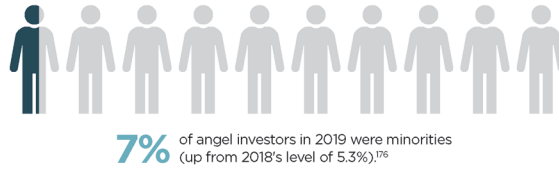
Investors in companies with ethnically diverse leadership teams have higher realized return multiples than they do from companies with all-white leadership teams.¹⁷⁴



Our data show that more than 75% of all rounds are raised by White Founding Teams. That means 3 out of 4 venture capital rounds are going to non-diverse teams, who will then go on and become repeat founders or venture partners if their companies are successful.

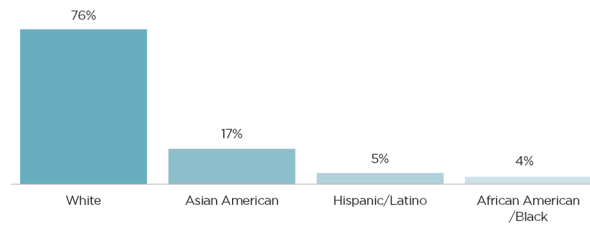
MARLON NICHOLS, COLLIN WEST
AND GOPINATH SUNDARAMURTHY OF
KAUFFMAN FELLOWS¹⁷⁵

Minority Investors

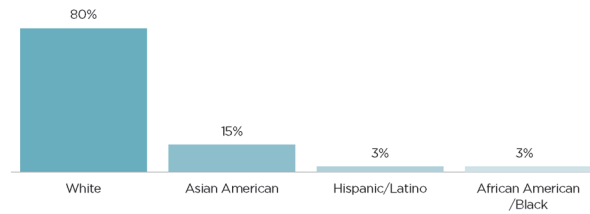


Minorities remain underrepresented within the VC industry.¹⁷⁷

VC Workforce



VC Investment Partners

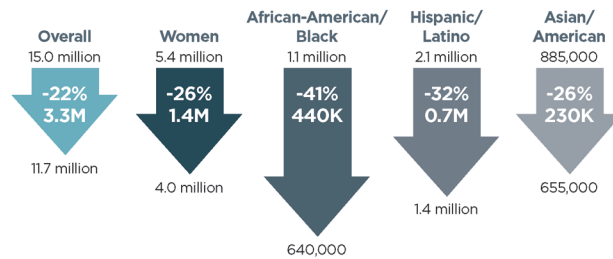


How has COVID-19 impacted underrepresented founders?



The pandemic and resulting economic crisis have highlighted and exacerbated preexisting inequities among historically underrepresented founders, including women and minorities. Data shows that founders in historically underrepresented groups have been disproportionately impacted.¹⁷⁸ Examining recent devastation to underrepresented founders' businesses caused by COVID-19 is critical to remediating long-term gender and racial inequities in capital formation.

The first months of the pandemic saw widespread closures of small businesses, with underrepresented businesses disproportionately forced to shutter their doors in response to COVID-19:¹⁷⁹



The disproportionate losses in April 2020 to the number of female business owners will only further increase gender inequality in business ownership and perhaps broader economic inequality.

ROBERT W. FAIRLIE OF THE NATIONAL BUREAU OF ECONOMIC RESEARCH¹⁸⁰

Between August and September of 2020, 865,000 women exited the labor force, compared to 216,000 men.¹⁸¹ Women are exiting at a higher rate for a variety of reasons, including (1) industries disproportionately affected, (2) operation of smaller, younger, and more vulnerable businesses, and (3) increased childcare and family burdens with school closures.¹⁸²



COVID-19 is impacting both founders and small businesses' workforces. Women- and minority-owned businesses are more likely to be negatively impacted by COVID-19 because of their industry sector, company resources, and scale of business:



of revenues for black-owned businesses are in vulnerable sectors, compared with 25% for all firms.¹⁸³



33% of Hispanic/Latino parents and primary caregivers have either shut down their businesses or experienced significant revenue declines.¹⁸⁵



Quarterly VC funding for women founders hit a **3 year low** in September.¹⁸⁶



37% of LGBTQ+ entrepreneurs have been impacted by difficulty accessing short-term capital.¹⁸⁷



24% of LGBTQ+ entrepreneurs have been impacted by difficulty accessing long-term capital.¹⁸⁸

“

VC activity for female and other historically underrepresented founders has seen some progress in recent years, but it remains far from parity. Historically, investors have heavily relied on network effects and pattern-matching to make investment decisions. [...] However, with investors turning their attention to existing portfolio companies and less likely to travel or hold in-person meetings, it will bring new challenges to founders who do not already have relationships with VC investors.

NATIONAL VENTURE CAPITAL ASSOCIATION¹⁸⁹

Natural Disasters and Capital Formation

When natural disasters strike, they often impact the survival prospects for the community's small businesses, which may have fewer resources to weather the challenges to rebuild and reinvestigate their customer base.

Where were the largest natural disaster events in the past year?

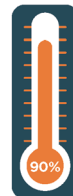
Between October 1, 2019 and September 30, 2020, there were 20 natural disaster events with losses exceeding \$1 billion in U.S. states and territories:¹⁹⁰



What is the impact of natural disasters on small businesses?



experience revenue losses.¹⁹¹

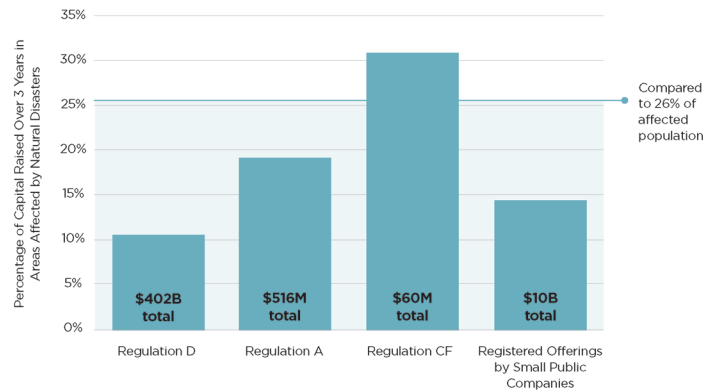


fail within a year unless they can resume operations within 5 days.¹⁹²

How does the percentage of the population affected by natural disasters compare to the amount of capital being raised?



Businesses in areas affected by natural disasters over that three-year time period are generally raising less capital relative to the affected population, except with respect to offerings pursuant to Regulation Crowdfunding.⁹⁵

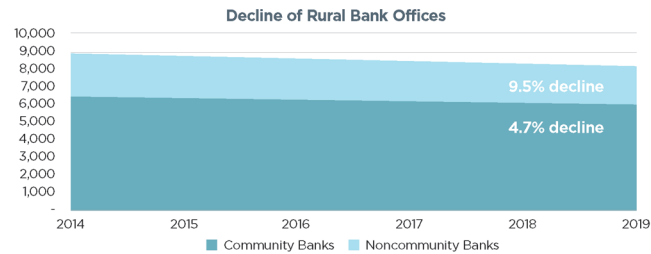


Rural Communities and Capital Formation

How do rural entrepreneurs access capital?

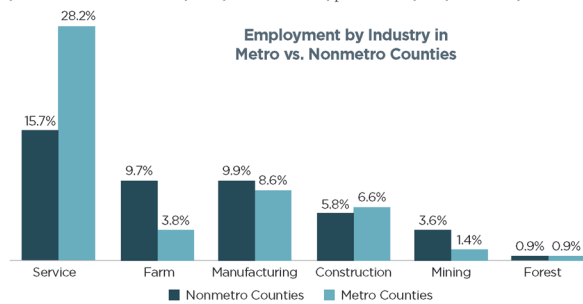
Rural entrepreneurs often rely on a diverse array of traditional and nontraditional capital sources to meet their financing needs.¹⁹⁶ These sources include, among others, community banks, Community Development Financial Institutions (CDFIs),¹⁹⁷ revolving loan funds, government-subsidized solutions,¹⁹⁸ angel/seed investors, and venture capital.

Community banks remain a key source of debt funding for rural businesses compared to noncommunity banks. From 2014 to 2019, rural communities saw a much larger decline in the number of offices of noncommunity banks than community banks:¹⁹⁹



What sectors of the economy create jobs in rural communities?

While rural communities are often associated with the agricultural sector, employment in nonmetropolitan communities, including rural communities, is actually more heavily concentrated in the services sector, which includes healthcare, food, administration, professional, arts, education, and management:²⁰⁰



Where are rural businesses growing in number?

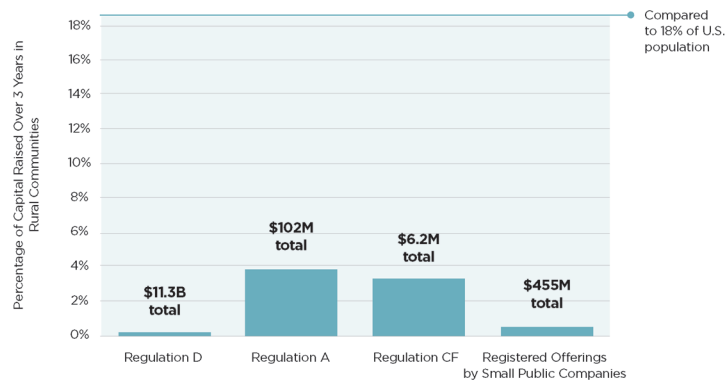
In 2018, 53% of rural counties in the U.S. saw an increase in the number of businesses. Rural counties in the Western U.S. led the growth, where the number of businesses increased by 2.4%. The five states with the highest rates of rural business growth were:²⁰¹



How does the rural population compare to the amount of capital being raised?



However, over the three years ending June 30, 2020, businesses in rural areas²⁰⁴ raised less capital relative to the U.S. population:



The concept of 'locavesting'—which refers to community investing—has been recognized as especially important in rural areas lacking investment capital since such areas often have strong economic ties to their local businesses.²⁰⁵



Policy Recommendations

Building upon last year's annual report,²⁰⁶ the Office developed the following policy recommendations for Congress and the Commission to consider based upon feedback received through hundreds of outreach events, phone calls, meetings, video conferences, and virtual coffees.

The recommendations set forth in this Report are crafted as pragmatic responses to the most significant issues impacting capital formation. Each recommendation includes background context, any recent Commission action, particular impact to demographic groups, and a potential solution.



The Office, together with the SEC's Atlanta Regional Office, convened thought leaders at Morehouse College to discuss barriers to entry for founders of color.

Education to Ease Challenges of Offering Complexity and Friction

No matter the industry, every company needs capital to build, grow, and scale. When that capital does not come from retained business earnings, personal savings, or debt financing, companies regularly look to the private markets to finance early-stage operations and development. Some founders do this with a single private financing in mind; others do so with aspirations of raising multiple rounds in preparation for becoming a public company. In both cases, raising capital through the private markets via exempt offerings is a necessary step in building the company. For the companies that will one day go public, the early-stage capital provides a foundation for the business to reach the size and maturity needed to go public. For the many other millions of small businesses that are not looking to become public companies, funding is critical for their development and for job creation in communities throughout the United States. It is important that we foster an environment where the next generation of publicly-traded companies can flourish just as much as the Main Street businesses who create the majority of net new jobs in the country each year.²⁰⁷

Last year's annual report noted that to comply with our securities laws in raising capital, marketplace participants tend to need either a law degree or access to sophisticated counsel who can help them navigate the rules, both of which carry a significant price tag and can be a barrier to entry. Those barriers to entry are exacerbated when looking at differences in personal wealth that may create additional hurdles for underrepresented founders.²⁰⁸ Our report specifically highlighted the challenges created by the differing requirements among offering exemptions, as well as the uncertainties that come when transitioning from one offering exemption to another. We underscored that capital formation is negatively affected when the rules confuse not only the actors who are directly impacted by the rules—namely, businesses and investors—but also counsel on whom they rely for expert advice.

As a potential solution, we highlighted the SEC's May 2019 *Concept Release on Harmonization*²⁰⁹ and identified guiding principles for the Commission to consider when looking to modernize, clarify, and streamline the regulations on the offer and sale of securities. In addition, we identified specific structural and regulatory changes that could be made to Regulation Crowdfunding to improve the offering structure for both investors and companies. Since then, the Commission proposed²¹⁰ and adopted²¹¹ significant changes to the exempt offering framework that took into account the feedback we had been hearing and our recommendations. These changes are a positive step towards easing some of the friction in our exempt offering framework; however, the process of selecting the optimal exemption to raise capital remains a daunting task for many small businesses and their investors.

Potential Solution: Targeted Educational Programs

Education about the exempt offering framework, including the Commission's recent changes, supports a healthy investing ecosystem for both small businesses and their investors. Educational resources can help small businesses and their investors identify which options best fit their capital needs, risk tolerance, and long-term objectives. When crafting educational resources, we recommend the following:

- Provide small businesses and their advisors with information that helps promote compliance with the federal securities laws in an accessible and easily-comprehensible format.
- Equip investors with appropriate tools to understand what information and other rights they have under different types of offerings.
- Target audiences that face challenges in raising capital, such as minority- and women-owned small businesses²¹² and businesses outside of traditional “hotspots” for capital raising, including in rural communities.²¹³



Fireside chat at the National Venture Capital Association's Strategic Operations & Policy Summit in October 2019.

Regulatory Clarity to Bridge Networks between Founders and Investors

Many small businesses struggle with how to connect to investors with the right risk tolerance, industry experience, and investing objectives for their company. For many entrepreneurs and founding teams who want to raise capital, their personal networks lack investors with deep pockets. Women and minority founders in particular often have networks that are less likely to be high net worth, which can create additional barriers to entry as an entrepreneur.²¹⁴ Connecting with early-stage investors who bring relevant industry experience can positively impact a company's trajectory through mentorship, business relationships, and support with follow-on funding, but those investors may lie outside of a founder's personal network. The matchmaking services that these small businesses and investors seek often lies outside of the scope of services performed by registered broker-dealers, leaving a gap in the capital formation ecosystem.

Last year's annual report noted that small businesses and their investors need clarity on what role finders can play in providing services that fall short of requiring registration as a broker-dealer. For decades, founders have tried to connect with investors using a roadmap that could benefit from clear signage. In October 2020, the Commission proposed an order²¹⁵ that would permit natural persons to engage in certain limited activities involving accredited investors without registering with the Commission. As of the date of this Report, that proposed order has not been made final.

Potential Solution: Clear Finders Framework

We appreciate the feedback that small businesses, investors, and other market participants shared in response to the Commission's proposed order. The comments demonstrate the need for a clear framework to regulate finders, and many make suggestions to improve aspects of the proposal. We continue to hear that both small businesses and their investors would benefit from additional certainty in this space, and we encourage the Commission to finalize a framework that delineates the legal obligations of persons who match small businesses with investors. Certainty for market participants will encourage compliance with securities laws and provide clarity to investors on the protections in place when engaging with a finder.

Diversifying Access to Capital

Accredited Investor Definition

The definition of “accredited investor” largely determines for small businesses who is in their pool of potential investors, and for investors whether they are eligible to invest in many early-stage companies. Many of the offering exemptions limit participation to accredited investors or contain restrictions on participation by non-accredited investors.

Last year’s annual report identified as proposed solutions the refinement of the accredited investor definition to add alternative measures for evaluating investor sophistication. Since then, the Commission adopted final rules²¹⁶ in August 2020 that update the accredited investor definition to more effectively identify institutional and individual investors that have the knowledge and expertise to participate in exempt offerings. The final rules encourage continued feedback on additional professional criteria that could impart accredited status for individuals.

Pooled Vehicle Funding

Funding from accredited investors, including those who act as angel investors in small businesses, is only one piece of the early-stage capital puzzle. Small businesses also look for capital from private funds, such as venture capital funds and private equity funds that operate under various exemptions from registration. The increasing concentration of capital into larger, private funds has resulted in a growing unmet need among entrepreneurs looking for seed and early-stage capital, with larger funds finding it inefficient or lacking bandwidth to make multiple small investments.²¹⁷



The Office’s Colin Caleb and Atlanta Regional Office’s Richard Best and Mark Youdell engage with attendees at the SEC’s Atlanta HBCU homecoming week event in October 2019.

We continue to hear about challenges that entrepreneurs face in accessing capital from funds, especially from women and minority entrepreneurs and from businesses located outside of venture capital hotspots.²¹⁸ Women and minority entrepreneurs often find themselves pitching to investors whose historical notion of successful entrepreneurship

looks white and male, which aligns with the profiles of the majority of investment decision-makers.²¹⁹ Many such investors are “pattern matching,” or looking to replicate investments based on the profile of a “successful” founder who matches a predictable pattern, which often does not reflect the diversity of the talented founders making the pitch.²²⁰ Pattern matching perpetuates a cycle that concentrates capital in limited geographies, ethnicities, genders, and educational backgrounds. Entrepreneurs located in parts of the country that are not traditional hubs for capital raising are likely to have to travel long distances—or move their companies—in order to access such capital. Last year’s annual report flagged many of these challenges.

Potential Solution: Support for Pooled Investment Vehicles

Increased diversity among fund managers, the location of funds, and the size of funds should improve access to capital for entrepreneurs, as well as opportunities for investors to support a more diverse pool of talented entrepreneurs. We encourage Congress and the Commission to explore initiatives to increase diversity among investment decision-makers to help shift the pattern matching that historically has negatively impacted women and minority entrepreneurs. In addition, we encourage exploration of pathways to promote the formation of smaller, regional funds to facilitate the growth of sustainable regional ecosystems through locavesting.²²¹

Attractiveness of Public Markets

It is critical that companies continue to view participating in our public markets as an attractive goal, and we continue to engage in conversations on how to encourage more companies to go public. When deciding whether to remain private or embark upon an IPO, most companies understandably weigh the costs—including costs of regulatory compliance—against the benefits—namely liquidity, ease of future capital raising, and a reputational boon.²²² Many aspects of our regulatory structure were originally targeted at the largest of public companies, and when applied to small public companies, they bear a disproportionate financial burden to assure compliance. This is added on top of the declining research coverage of small public companies, which creates liquidity challenges that incent private companies to delay becoming public until they reach a larger size and scale (which notably diminishes potential returns for public market investors). In many cases, it may encourage smaller private companies to consider an alternative exit, such as an acquisition.

In last year's annual report, we encouraged Congress and the Commission to continue to tailor the disclosure and reporting framework to scale the obligations of reporting companies to their complexity and scale of operations. Since then, the Commission has taken further action in this area through multiple rulemakings.²²³

Potential Solution: Foster the Public Company Environment

Congress and the Commission should continue to consider market innovations that could have the effect of incenting more companies to go public and to remain public. For example, 2020 saw innovations in the IPO process, including continued interest in the direct listing process. During the year, we also saw an increased number of public listings,²²⁴ including a notable increase in offerings by special purpose acquisition companies (or SPACs).²²⁵ While the relative advantages and disadvantages of these new processes remain to be fully explored, we are encouraged by the advancement of market innovations, and we support the Commission considering other innovations that will encourage more private companies to go public and thereby expand investment opportunities for retail investors.

For companies that are already publicly traded, it is important that they are motivated to stay public to maintain breadth of investment opportunities for investors. We encourage Congress and the Commission to regularly evaluate both sides of the regulatory coin: the rules that encourage private companies to become public, such as the emerging growth company accommodations, as well as the rules that support the many existing small public companies who are juggling increasing compliance costs alongside declining research coverage and liquidity concerns. Together they will inure to the benefit of our country's investors and the market at large.



Miami area entrepreneurs share their experiences raising capital with the Office's Martha Miller and Jessica McKinney during a January 2020 roundtable gathered by the Miami-Dade Beacon Council.



Small Business Capital Formation Advisory Committee FY2020 Summary

The Small Business Advocate Act established the SEC's Small Business Capital Formation Advisory Committee (Committee).²²⁶ The Committee provides a formal mechanism for the Commission to receive advice and recommendations on Commission rules, regulations, and policy matters affecting small businesses, from emerging, privately-held companies to publicly-traded companies with less than \$250 million in public market capitalization; trading in securities of such companies; and public reporting and corporate governance of such companies. The Office provides administrative support for the Committee, which otherwise functions independently.

In April 2019, the Commission appointed the inaugural members of the Committee.²²⁷ The membership includes companies and investors from across a diverse set of experiences, industries, geographies, and company life cycle stages. In FY2020, two inaugural members of the Committee resigned: Terry McNew and Karen Mills. In addition, Melanie Senter Lubin succeeded Michael Peciak's service as the North American Securities Administrators Association's representative, and William Manger succeeded Joseph Shephard as the Small Business Administration's representative. The Commission is grateful for their service and commitment to small businesses and their investors. Two new members were appointed by the Commission in FY2020 to fill vacancies: Kesha Cash and Sue Washer.²²⁸ The members of the Committee as of the end of FY2020 are as follows:



CARLA GARRETT, *Chair*
Corporate Partner,
Potomac Law Group PLLC
Washington, DC



YOUNGRO LEE, *Assistant Secretary*
CEO and Co-Founder,
NextSeed
Houston, TX



JEFFREY M. SOLOMON,
Vice Chair
Chief Executive Officer, Cowen, Inc.
New York, NY



KESHA CASH
Founder and General Partner,
Impact America Fund
Oakland, CA



GREGORY YADLEY, *Secretary*
Partner, Shumaker, Loop &
Kendrick, LLP
Tampa, FL



GREG DEAN*
Senior Vice President of the Office
of Government Affairs, FINRA
Washington, DC



ROBERT FOX
National Managing Partner,
Professional Standards Group,
Grant Thornton LLP
Chicago, IL



STEPHEN GRAHAM
Co-Chair, Fenwick & West LLP's Life
Sciences Practice
Seattle, WA



SARA HANKS
CEO and Co-Founder,
CrowdCheck, Inc.
Alexandria, VA



BRIAN LEVEY
Chief Business Affairs and Legal
Officer, Upwork Inc.
Santa Clara, CA



MELANIE SENTER LUBIN*
Maryland Securities Commissioner
for the Securities Division, Office
of the Attorney General
Baltimore, MD



WILLIAM MANGER*
Chief of Staff and Associate
Administrator for the Office of
Capital Access; U.S. Small Business
Administration
Washington, DC



SAPNA MEHTA
General Counsel & Chief
Compliance Officer, Rise of
the Rest Seed Fund; Associate
General Counsel, Revolution
Washington, DC



MARTHA LEGG MILLER*
Director, Office of the Advocate for
Small Business Capital Formation,
U.S. Securities & Exchange
Commission
Washington, DC



CATHERINE MOTT
Founder and CEO of BlueTree
Capital Group, BlueTree Allied
Angels, and BlueTree Venture Fund
Pittsburgh, PA



POORVI PATODIA
CEO and Founder,
Biena Snacks
Allston, MA



JASON SEATS
Chief Investment Officer,
Techstars
Austin, TX



MARC OORLOFF SHARMA*
Chief Counsel of the Office of the
Investor Advocate, U.S. Securities
& Exchange Commission
Washington, DC



HANK TORBERT
President,
AltaMax, LLC
New Orleans, LA



SUE WASHER
President and CEO, Applied Genetic
Technologies Corporation
Gainesville, FL

*Committee members include the SEC's Advocate for Small Business Capital Formation and three non-voting members appointed by each of the SEC's Investor Advocate, the North American Securities Administrators Association (NASAA), and the Small Business Administration, as well as an observer appointed by the Financial Industry Regulatory Authority (FINRA).

Summary of Activities

The Committee met six times during FY2020: two in person, one telephonic, and three by video conference. Materials from meetings, including agenda, transcripts, and presentations, are available on the Committee's webpage.

Small Business Capital Formation Advisory Committee FY2020 Meetings	
November 12, 2019	Harmonization of the Exempt Offering Framework and Pooled Investment Funds
December 11, 2019	Harmonization of the Exempt Offering Framework (continued)
February 4, 2020	Exploration of Small Business Capital Markets Data and Challenges Faced by Small Businesses and Their Investors; and Local Capital Availability for Early-Stage Companies and the Role of Regional Funds
April 2, 2020	Ad Hoc Meeting in Response to COVID-19 Challenges Faced by Small Businesses
May 8, 2020	Capital Formation Proposal
August 4, 2020	Underrepresented Founders and Investors



[Top left] Members of the Committee discuss the exempt offering framework at the Committee's meeting at the SEC's Washington, DC headquarters on November 12, 2019.



[Top right] Chair Carla Garrett opens a video conference meeting. The Committee focused many of its discussions this year on the impacts of COVID-19 on small businesses.



[Bottom right] Members Jason Seats, Hank Torbert, Greg Dean, and Michael Pieciak engage in discussion.

Committee Recommendations

During FY2020, the Committee put forward the following six recommendations to the Commission:

Accredited Investor Definition

November 12, 2019

The Commission's Concept Release on Harmonization of Securities Offering Exemptions, Release No. 33-10649 (June 18, 2019) (Harmonization Concept Release)²²⁹ included a discussion of whether the SEC should amend the accredited investor definition. With respect to the definition of "accredited investor" as set forth in Securities Act Rule 501(a) of Regulation D, the Committee recommends that the Commission:

1. Leave the current financial thresholds in place, subject to possibly adjusting such thresholds downwards for certain regions of the country.
2. Going forward, index the financial thresholds for inflation on periodic basis.
3. Revise the definition to allow individuals to qualify as accredited investors based on measures of sophistication. In doing so, the Commission should create bright line rules for qualifying as an accredited investor by sophistication, which could include professional credentials, work experience, education, and/or a sophistication test.

RELEVANT COMMISSION ACTION

On December 18, 2019, as part of its broader effort to consider ways to harmonize and improve the exempt offering framework under the Securities Act of 1933 (Securities Act), the Commission proposed amendments to the definition of "accredited investor" under Regulation D of the Securities Act to add new categories of qualifying natural persons and entities and to make certain other modifications to the existing definition.²³⁰

After receiving public comment on the proposal, on August 26, 2020, the Commission adopted final rules.²³¹ The amendments maintain the financial thresholds in the rule and also permit natural persons to qualify as accredited investors based on, among other things, certain professional certifications, designations, or credentials. The amendments also add new categories for “knowledgeable employees” of private funds and “family offices” with more than \$5 million in assets under management and their “family clients.” In a related order, the Commission designated holders in good standing of the Series 7 (Licensed General Securities Representative), Series 65 (Licensed Investment Adviser Representative), and Series 82 (Licensed Private Securities Offerings Representative) licenses as accredited investors.²³² Both the proposing release and adopting release referenced the Committee’s recommendation to index the financial thresholds for inflation on a periodic basis. However, comments were mixed on this topic and the final rules did not include an indexing provision. The adopting release stated that the Commission will continue to monitor the size of the accredited investor pool, the characteristics of individual accredited investors who participate in the private markets, the appropriateness of the income and net worth thresholds, and, to the extent data is available, performance and incidence of fraud in exempt offerings, including in connection with the Commission’s quadrennial review of the accredited investor definition required by the Dodd-Frank Act.



Members Brian Levey, Sapna Mehta, and Catherine Mott discuss during the Committee’s development of recommendations on the accredited investor definition.

Retail Investor Access to Registered Closed-End Funds Investing in Private Funds

November 12, 2019

The Commission's Harmonization Concept Release included a discussion of whether the SEC should take steps to facilitate capital formation in exempt offerings through pooled investment funds and whether retail investors should be allowed greater exposure to private, growth-stage companies through pooled investment funds.

As part of such initiatives, the Committee recommends that the SEC remove the standard that registered closed-end funds investing more than 15% of their assets in private funds must limit their sales to accredited investors.

RELEVANT COMMISSION ACTION

On November 2, 2020, the Commission adopted final rules to simplify, harmonize, and improve certain aspects of the exempt offering framework to promote capital formation, while preserving or enhancing important investor protections.²³³



Committee members Youngro Lee, Greg Yadley, Sara Hanks, Sapna Mehta, and Catherine Mott engage in discussion with fund experts during the November 12, 2019 meeting.

Among other things, these final rules increase the offering limits for Regulation A, Regulation Crowdfunding, and Rule 504 offerings; revise certain individual investment limits; and permit the use of certain special purpose vehicles to facilitate investing in Regulation Crowdfunding issuers. In addition, as described in connection with the accredited investor recommendation above, the Commission adopted final rules that, among other things, add additional means for individuals to qualify as accredited investors and participate in private offerings, including certain private funds.

Chairman Clayton has also expressed interest in exploring options for increasing opportunities for retail investors to invest in private markets, including through professionally managed funds, on terms similar to those available to institutional investors, and on a diversified basis.²³⁴ The Director of the Division of Investment Management has emphasized the importance of expanding public access to private markets as well, and has solicited feedback from fund sponsors, investors, and other market participants on how closed-end funds of private funds could help enhance such access, including with respect to appropriate structures for these investments, criteria that would promote access to high quality private market investments, and ways to avoid an extra layer of fees and expenses.²³⁵

Regulation Crowdfunding

December 11, 2019

The Committee continued its discussion of topics covered in the Commission's Concept Release on Harmonization of Securities Offering Exemptions, Release No. 33-10649 (June 18, 2019).

With respect to Regulation Crowdfunding, the Committee recommends that the Commission:

1. Streamline and tier the compliance obligations, including at what offering amounts issuer reporting and financial statement audit and review obligations are triggered;
2. Raise the \$1.07 million per year offering limit;
3. Remove limits on accredited investors' investment amount;
4. Change investment limits to apply on a per investment basis rather than using annual investment limits, and calculate those limits based upon the greater, rather than lesser, of income or net worth;
5. Allow eligible investors to invest through special purpose vehicles; and
6. Allow greater flexibility in portal compensation.

RELEVANT COMMISSION ACTION

As described above, on November 2, 2020, the Commission adopted a set of rule amendments that, among other things, raise the offering limit in Regulation Crowdfunding from \$1.07 million to \$5 million, permit the use of special-purpose vehicles that function solely as a conduit to invest in a business raising capital under Regulation Crowdfunding, and increase the investment limits applicable to investors in Regulation Crowdfunding offerings by no longer applying those limits to accredited investors and allowing non-accredited investors to rely on the greater of their income or net worth in calculating their investment limit.

The proposing release also requested comment with respect to the Regulation Crowdfunding thresholds for different tiers of financial statement requirements. On May 4, 2020, the Commission adopted temporary final rules under Regulation Crowdfunding to facilitate capital formation for small businesses impacted by COVID-19, which include, among other things, an exemption from certain financial statement review requirements for issuers offering \$250,000 or less of securities in reliance on Regulation Crowdfunding within a 12-month period.²³⁶ On August 28, 2020, the Commission extended that relief for offerings initiated through February 2021.²³⁷ While the Commission did not adopt permanent changes to the financial statement thresholds, the November 2, 2020 final amendments extend the \$250,000 threshold through August 2022.



Chair Carla Garrett and Vice Chair Jeff Solomon at the February 4, 2020 meeting, discussing the availability of capital in different geographic regions.

Harmonization General Principles

December 11, 2019

The Committee continued its discussion of topics covered in the Commission's Concept Release on Harmonization of Securities Offering Exemptions, Release No. 33-10649 (June 18, 2019).

The Committee supports harmonization of the exempt offering framework and recommends that the Commission harmonize the exempt offering framework with the following principles in mind:

- a. The exempt offering framework should be clear, concise, and effective for small businesses to raise capital;
- b. The exempt offering framework should be simple and easy to understand, thereby making it less complex for small businesses to raise capital;
- c. The elements of the current exempt offering framework that are functioning well should be maintained, and therefore, the Commission should "do no harm" to Rule 506(b) of Regulation D; and
- d. Integration should be revised so that the exemptions can be better utilized.

RELEVANT COMMISSION ACTION

As described above, on November 2, 2020, the Commission adopted a set of rule amendments to simplify, harmonize, and improve certain aspects of the exempt offering framework to promote capital formation, while preserving or enhancing important investor protections.



Member Poorvi Patodia shares details about her company's experiences during the early months of the COVID-19 pandemic.

The amendments generally retain the current exempt offering structure, but reduce potential friction points and seek to close gaps and reduce complexities in the exempt offering framework that may impede access to investment opportunities for investors and access to capital for businesses and entrepreneurs. Among other changes, the final rules establish a new integration framework that provides clarity with respect to issuers' ability to successively raise capital under different exemptions.

Capital Formation Proposal

May 8, 2020

The Committee generally supports the proposed changes to the exempt offering framework set forth in the Capital Formation Proposal, specifically:

1. Increasing annual offering limits, allowing issuers to raise up to:
 - \$5 million using Regulation Crowdfunding;
 - \$10 million using Rule 504 of Regulation D; and
 - \$75 million using Tier 2 of Regulation A.
2. Creating an exemption from general solicitation for “demo days” and similar pitch events under proposed Rule 148.
3. Creating new ways for issuers to test the waters to gauge market interest prior to incurring offering expenses by allowing:
 - Generic solicitation of interest materials for issuers to “test the waters” for an exempt offer prior to determining which exemption it will use; and
 - Regulation Crowdfunding issuers to “test the waters” prior to filing an offering document with the SEC.
4. Harmonizing what disclosures are provided to investors, including aligning the non-accredited investor financial disclosure requirements in Rule 506(b) offerings with the disclosure requirements of Regulation A.
5. Improving the utility of Regulation Crowdfunding by:
 - Increasing how much some individuals can invest by:
 - » Removing limits on how much accredited investors can invest; and
 - » Basing non-accredited investor limits on the greater, not lesser, of their income or net worth;
 - Allowing investors to pool their funds together in a special purpose vehicle to invest in a Regulation Crowdfunding offering; and
 - Aligning the types of securities eligible for offer under Regulation Crowdfunding to correspond with the eligible securities in Regulation A offerings.

The Committee also encourages the Commission to clarify the basis for determining accredited investor status in Regulation Crowdfunding offerings.

6. Reducing the complexities across the offering framework by adopting an integration framework that consistently defines and clarifies integration, including by the new general principle and through the four proposed non-exclusive safe harbors. In addition, the Committee recommends that the Commission add more clarity around integration with respect to convertible notes and subsequent public offerings.

In addition to items included in the Capital Formation Proposal, the Committee encourages the Commission to:

- a. Consider adding a micro-offering exemption, as referenced in question 64 of the Capital Formation Proposal, with fewer reporting requirements and restrictions for issuers;
- b. Provide pathways for retail investors to invest in a wider range of small businesses through pooled investment vehicles; and
- c. Adopt a clear framework for unregistered finders (as recommended by the prior SEC Committee on Small and Emerging Companies²³⁸ and at SEC Small Business Forums²³⁹) in light of their role as intermediaries in fostering capital formation for smaller businesses.

RELEVANT COMMISSION ACTION

As discussed above, on November 2, 2020, the Commission adopted, among other things, rule amendments consistent with each of the Committee's specific recommendations numbered 1 through 6 above, other than the recommendation to align the types of securities eligible for offerings under Regulation Crowdfunding to correspond with the eligible securities in Regulation A offerings.

Further, in response to comments received on the proposing release suggesting the addition of an accredited investor verification requirement in Regulation Crowdfunding, the Commission stated its belief in the adopting release that a verification requirement is unnecessary.



Committee members greet one another before their meeting.

On October 7, 2020, the Commission proposed a limited, conditional exemption from broker registration requirements for “finders” who assist issuers with raising capital in private markets from accredited investors. The Commission requested public comment on all aspects of the proposed exemption.

Underrepresented Founders and Investors

August 4, 2020

The Committee presented the following findings regarding how capital markets are serving underrepresented founders and investors, and in particular how minority- and women-owned businesses and funds face barriers to entry due to less access to capital than their peers:

- The Committee acknowledges that the country is at an inflection point with respect to confronting matters of racial equity and inclusion, and access to capital is a powerful tool to help achieve racial and economic equity.
- Inclusion in the development of new business and economic growth is important to our national well-being, particularly for minorities and women.
- As evidenced by the statistics²⁴⁰ presented to the Committee during [its August 4, 2020] meeting, including that minority-owned and women-owned businesses have significantly less capital when starting a business compared with new white-owned businesses, the Committee acknowledges that the capital formation rules may include impediments for minorities and women to access the capital markets.
- Regulatory action to improve the current capital-raising system—in which minorities and women have been underrepresented and inadequately supported—is critical.
- The Committee supports regulatory revisions to the capital-raising rules and ecosystem that promote increased opportunities for diverse entrepreneurs and investors, particularly minorities and women, and asks the SEC to take leadership in the area.



Member Kesha Cash at the August 4, 2020 video conference meeting where the Committee discussed the need to promote increased opportunities for diverse entrepreneurs and investors.

RELEVANT COMMISSION ACTION

Over the course of 2020, the SEC heard from a variety of thought leaders on how the Commission can support improvements to diversity and inclusion, including in small business capital formation, as well as in the asset management industry. Further, the Commission published its first Diversity and Inclusion Strategic Plan for Fiscal Years 2020-2022²⁴¹ in collaboration with the SEC's Office of Minority and Women Inclusion as a blueprint to build upon to promote workforce diversity, inclusion, and opportunity, as well as supplier diversity, in light of the dynamic and ever-changing nature of the markets the SEC oversees. In the November 2, 2020 release that accompanies the amendments to the exempt offering framework mentioned above, the Commission stated:

We are mindful of concerns expressed in the Recommendation of the SEC Small Business Capital Formation Advisory Committee regarding how our capital markets are serving underrepresented founders and investors. The recommendation states that minority- and women-owned businesses and funds face barriers to entry due to less access to capital than their peers. We believe that the amendments adopted in this release will enable small businesses generally to access capital through exempt offerings more effectively and we encourage further specific, tangible suggestions for action by the Commission and are committed to continued engagement on this topic.



END NOTES

- 1 See https://www.sec.gov/files/2019_OASB_Annual%20Report.pdf.
- 2 See <https://www.sec.gov/files/Small%20Business%20Advocate%20Act%20of%202016-as%20amended.pdf>.
- 3 The Small Business Advocate Act also established a Small Business Capital Formation Advisory Committee at the SEC. The Office uses the Committee's parameters to define the scope of small businesses that it serves.
- 4 The SEC conducts the Forum annually and prepares a report in accordance with the Small Business Investment Incentive Act of 1980 [15 U.S.C. 80c-1 (codifying section 503 of Pub. L. No. 96-477, 94 Stat. 2275 (1980))].
- 5 See <https://www.sec.gov/virtualcoffee>.
- 6 This graphic is based on DERA data. This graphic depicts amounts reported or estimated as raised from July 1, 2019 through June 30, 2020. Data on offerings under Regulations D and Crowdfunding is based on information reported by companies and was collected from EDGAR filings (new filings and amendments) on Forms D and C, respectively. Data on registered offerings was collected from Thomson Financial's SDC Platinum database. For offerings under Regulation Crowdfunding, except where specified otherwise, estimates of the number of offerings are based on offerings completed during this period as shown on progress updates on Form C-U; estimates of amounts raised are based on proceeds reported in progress updates filed on Form C-U during the report period. For offerings under Regulation A, except where specified otherwise, estimates of the number of offerings are based on offerings qualified during this period, excluding post-qualification amendments; estimates of amounts raised are based on proceeds reported in filings made during the report period. Capital raised is based on information reported by companies in Forms 1-Z, 1-K, 1-SA, 1-U, and offering circular supplements pertaining to completed and ongoing Regulation A offerings and post-qualification amendments, and for companies whose shares have become exchange-listed, information from other public sources. Estimates represent a lower bound on the amounts raised given the time frames for reporting proceeds following completed or terminated offerings and that offerings qualified during the report period may be ongoing. For the offerings that permit pooled investment funds, such as Rule 506(b) and (c) of Regulation D and registered offerings, the data includes offerings conducted by pooled investment funds.
- 7 "Other exempt offerings" includes estimated amounts raised under Section 4(a)(2), Regulation S, and Rule 144A for calendar year 2019. See note 600 in "Facilitating Capital Formation and Expanding Investment Opportunities by Improving Access to Capital in Private Markets," Rel. No. 33-10884 (Nov. 2, 2020), available at <https://www.sec.gov/rules/final/2020/33-10844.pdf> ("Amendments to Exempt Offering Framework") for a description of the methodology used to calculate this amount. We do not yet have data to provide an estimated amount raised under Section 4(a)(2), Regulation S and Rule 144A for the period through June 30, 2020.
- 8 17 C.F.R. § 227.100 *et seq.*; see <https://www.sec.gov/smallbusiness/exemptofferings/regcrowdfunding>.
- 9 See Amendments to Exempt Offering Framework, *supra* note 7.
- 10 17 C.F.R. § 230.504; see <https://www.sec.gov/smallbusiness/exemptofferings/rule504>.
- 11 See Amendments to Exempt Offering Framework, *supra* note 7.
- 12 Securities Act of 1933 § 3(a)(11), 17 C.F.R. § 230.147, and 17 C.F.R. § 230.147A; see <https://www.sec.gov/smallbusiness/exemptofferings/intrastateofferings>.
- 13 17 C.F.R. § 230.506(b); see <https://www.sec.gov/smallbusiness/exemptofferings/rule506b>.
- 14 See "Final Rule: Accredited Investor Definition," Rel. No. 33-10824 (Aug. 26, 2020), available at <https://www.sec.gov/rules/final/2020/33-10824.pdf>.
- 15 17 C.F.R. § 230.506(c); see <https://www.sec.gov/smallbusiness/exemptofferings/rule506c>.
- 16 17 C.F.R. § 230.251 *et seq.*; see <https://www.sec.gov/smallbusiness/exemptofferings/rega>.
- 17 See Amendments to Exempt Offering Framework, *supra* note 7.
- 18 15 U.S.C. § 77a, *et seq.*; see <https://www.sec.gov/smallbusiness/goingpublic>.
- 19 This graphic presents capital raised in registered, Regulation D and Regulation A offerings across the top six industries from July 1, 2018 through June 30, 2019. Offerings by non-pooled investment funds in other industries accounted for approximately \$225 billion, \$43 billion and \$55 million in registered, Regulation D and Regulation A offerings, respectively. Regulation A and registered offerings were classified into industry groups based on the primary SIC code reported by the company. Industry groups were self-reported by companies on Form D. Differences in data sources and definitions may limit

- the comparability of industry data. Offerings by pooled investment funds, which accounted for approximately \$29 billion and \$1.32 trillion in registered offerings and Regulation D, respectively, are excluded from this graphic. *See supra* note 6 for a description of how these amounts were reported or estimated.
- 20 The maps included in this section depict the amounts reported or estimated as raised by issuers, including pooled investment funds that report a primary location in the U.S., including U.S. territories, from July 1, 2019 through June 30, 2020. *See supra* note 6 for a description of how these amounts were reported or estimated.
- 21 *See* Board of Governors of the Federal Reserve System, "Monetary Policy Report" (Jun. 12, 2020) at 1, *available at* https://www.federalreserve.gov/monetarypolicy/files/20200612_mpr_fullreport.pdf ("In response to the public health emergency precipitated by the spread of COVID-19, many protective measures were adopted to limit the transmission of the virus. These social-distancing measures effectively closed parts of the economy, resulting in a sudden and unprecedented fall in economic activity and historic increases in joblessness.").
- 22 *See* Alexander W. Bartik, *et al.*, "How are Small Businesses Adjusting to COVID-19? Early Evidence from a Survey," National Bureau of Economic Research, (Apr. 2020 Working Paper) at 3, *available at* <http://www.nber.org/papers/w26989>.
- 23 *See* Board of Governors of the Federal Reserve System, *supra* note 21, at 2.
- 24 *See* National Venture Capital Association, "Startup Ecosystem Faces Capital Crunch over Coming Months" (Apr. 27, 2020) at 2, *available at* <https://nvca.org/wp-content/uploads/2020/04/Startup-Ecosystem-Faces-Capital-Crunch-over-Coming-Months-5.pdf>.
- 25 *See id.* at 12 ("The capital crunch in the industry will be felt across the board, but perhaps most acutely by founders and investors in historically underrepresented groups, in emerging venture ecosystems, and smaller (<\$100 million) and new venture fund managers."); *see also* MetLife and U.S. Chamber of Commerce, "Small Business Coronavirus Impact Poll," (Jul. 29, 2020) at 6, *available at* https://www.uschamber.com/sites/default/files/metlife_uscc_sbi_coronavirus_impact_poll_july.pdf.
- 26 *See* Board of Governors of the Federal Reserve System, *supra* note 21, at 24.
- 27 *See* Raj Chetty *et al.*, "The Economic Impacts of COVID-19: Evidence from a New Public Database Built from Private Sector Data," *Opportunity Insights*, (Sept. 2020) at 3, *available at* <https://fairmodel.econ.yale.edu/cc438/chetty1.pdf> ("Most of the reduction in spending is accounted for by reduced spending on goods or services that require in-person physical interaction and thereby carry a risk of COVID infection, such as hotels, transportation, and food services, consistent with the findings of Diane Alexander & Ezra Karger, "Do Stay-at-Home Orders Cause People to Stay at Home? Effects of Stay-at-Home Orders on Consumer Behavior." Federal Reserve Bank of Chicago Working Paper No. 2020-12. The composition of spending cuts – with a large reduction in services – differs sharply from that in prior recessions, where service spending was essentially unchanged and durable goods spending fell sharply."); *see also* Bartik, *supra* note 22, at 3 ("Impacts also vary across industries, with retail, arts and entertainment, personal services, food services, and hospitality businesses all reporting employment declines exceeding 50 percent. Finance, professional services, and real estate related businesses have seen less disruption.").
- 28 Board of Governors of the Federal Reserve System, *supra* note 21, at 4.
- 29 This map illustrates the percentage change in open small businesses across the U.S. relative to January 2020 based on transaction data. *See* Chetty, *supra* note 27, at 12 ("We define small businesses as being open if they have a transaction in the last three days. We exclude counties with a total average revenue of less than \$250,000 during the pre-COVID-19 period (January 4-31)."). Data is *available at* <https://trackthecorecovery.org/>.
- 30 *See id.* at 12 ("We define small businesses as being open if they have a transaction in the last three days. We exclude counties with a total average revenue of less than \$250,000 during the pre-COVID-19 period (January 4-31)."). *But see* Board of Governors of the Federal Reserve System, "Business Exit During the COVID-19 Pandemic: Non-Traditional Measures in Historical Context" (October 2020) at 2-3, *available at* <https://www.federalreserve.gov/econres/feds/files/2020089pap.pdf> (noting "[a] key challenge is distinguishing between temporary shutdown and permanent shutdown (death). . . . and that identifying deaths is more difficult in alternative data sources." Further noting that "the line between temporary and permanent shutdown may be blurry at times, as even temporary shutdown may have significant economic implications if it is prolonged or results in substantial business restructuring before reopening.").
- 31 *See* Chetty, *supra* note 27, at 12 ("We define small businesses as being open if they have a transaction in the last three days. We exclude counties with a total average revenue of less than \$250,000 during the pre-COVID-19 period (January 4-31)."). Data is *available at* <https://trackthecorecovery.org/>.

- 32 See *id.*
- 33 See Board of Governors of the Federal Reserve System, *supra* note 21, at 24 (“Small firms tend to be more financially constrained than larger firms. For example, bank account data suggest that roughly half of small businesses entered the COVID-19 crisis with cash reserves sufficient for fewer than 15 days of operations without revenue. Moreover, even under normal circumstances, many small firms face financial challenges and lack access to liquid financial markets, relying instead on bank loans, credit cards, and the personal resources of owners.”). See also Diana Farrell, et al., “Place Matters: Small Business Financial Health Urban Communities,” *JPMorgan Chase Institute*, (Sept. 2019) (“In the typical community...47 percent had two weeks or less of cash liquidity. [...] In all majority Black or Hispanic communities, most small businesses had fewer than twenty-one cash buffer days.”); see also Bartik, *supra* note 22, at 3 (“Second, our results suggest that many businesses are financially fragile. The median firm with expenses over \$10,000 per month has only enough cash on hand to last for two weeks.”).
- 34 See Hello Alice & GGV Capital Impact Report (Oct. 2020) available at https://alice-data-production.s3.us-east-2.amazonaws.com/data_reports/Hello_Alice_and_GGV_Capital.pdf. See also Bartik, *supra* note 22, at 3 (stating that small businesses on average reported having reduced their employees by 40% since January).
- 35 See Facebook and Small Business Roundtable, “State of Small Business Report” (May 2020), available at <https://about.fb.com/news/2020/05/state-of-small-business-report/> (based on a survey of 86,000 small- and medium-sized business owners, managers, and workers).
- 36 See MetLife and U.S. Chamber of Commerce, “Small Business Coronavirus Impact Poll,” (Jul. 29, 2020) at 2, available at <https://www.uschamber.com/report/july-2020-small-business-coronavirus-impact-poll>.
- 37 More information on the relief package is available at “The CARES Act Provides Assistance to Small Businesses,” *U.S. Department of the Treasury*, available at <https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>. See also “Coronavirus Relief Options,” *U.S. Small Business Administration*, available at <https://www.sba.gov/funding-programs/loans/coronavirus-relief-options>.
- 38 See Justin Lahart, “Covid Is Crushing Small Businesses. That’s Bad News for American Innovation,” *The Wall Street Journal*, (Oct. 9, 2020) available at <https://www.wsj.com/articles/covid-is-crushing-small-businesses-thats-bad-news-for-american-innovation-11602235804> (“In the Federal Reserve’s third-quarter survey of senior loan officers, conducted in July, 70% of respondents reported tightening lending standards for small firms—the most since the fourth quarter of 2008, when the financial crisis struck.”). The underlying data was obtained from the Federal Reserve Board’s Senior Loan Officer Opinion Survey on Bank Lending Practices for July 2020, available at <https://www.federalreserve.gov/data/sloos/sloos-202007.htm>.
- 39 *Id.*
- 40 See “Founder Demographics & Capital Formation” section, *infra*.
- 41 See NSBA Small Business Survey, “Covid-19: The Path Forward,” (Jul. 2020) available at <https://nsba.biz/wp-content/uploads/2020/07/COVID-19-Path-Forward-Survey-July-2020.pdf>. This survey was taken among 630 small-business owners June 16-23, 2020; see also The UPS Store, “Inside Small Business Survey,” (2020) available at <https://www.theupsstore.com/File%20Library/theupsstore/pr/theupsstore-inside-small-business-infographic-2020.pdf> (reporting that 41% of small businesses changed or pivoted their business); see also The Visa Back to Business Study, “Global Small Business and Consumer Insights Powering Recovery Through Digital and Contactless Payments Amidst COVID-19,” (2020) available at <https://usa.visa.com/dam/VCOM/global/run-your-business/documents/visa-back-to-business-study.pdf> (reporting that more than 67% of small and micro businesses in the U.S. pivoted to keep their business on track since the onset of COVID-19).
- 42 See The UPS Store, *supra* note 41.
- 43 See Rieva Lesonsky, “Pivoting Helps Small Businesses Thrive During COVID-19 Pandemic,” *U.S. Chamber of Commerce*, (Sept. 1, 2020) available at <https://www.uschamber.com/col/start/strategy/metlife-us-chamber-small-business-index-covid-19> citing <https://www.uschamber.com/report/july-2020-small-business-coronavirus-impact-poll>.
- 44 See Visa Back to Business Study, *supra* note 41. The Visa Back to Business Study was conducted by Wakefield Research between June 18 and June 29, 2020, among 250 small business owners at companies with 100 employees or fewer in each of the following markets: U.S., Germany, Canada, Ireland, Hong Kong, Singapore, Brazil, and UAE (“71% of small and micro businesses globally have found their local community to be “supportive” of their business.”).
- 45 Aaron DeSmet et al., “Ready, Set, Go: Reinventing the Organization for Speed in the Post-COVID-19 Era,” *McKinsey & Company*, (Jun. 26, 2020) available at <https://www.mckinsey.com/business-functions/organization/our-insights/ready-set-go-reinventing-the-organization-for-speed-in-the-post-covid-19-era>.

- 46 See NSBA Small Business Survey, *supra* note 41. The NSBA survey was taken among 630 small-business owners June 16-23, 2020.
- 47 See Miles Kruppa, "Hottest Silicon Valley Start-Ups Begin to Sell Themselves at a Discount," *Financial Times*, (May 1, 2020) available at <https://www.ft.com/content/0a4a651e-8057-44f8-92c2-f23a89cd632a> ("The start-ups in high demand tend to be those in sectors benefiting from the lockdown, such as telemedicine, cloud computing and collaboration software."); *see also* PitchBook-NVCA, "Venture Monitor Q3 2020," (Oct. 12, 2020) at 3, available at <https://pitchbook.com/news/reports/q3-2020-pitchbook-nvca-venture-monitor> (noting that the pandemic accelerated the adoption of fintech, edtech, and telemedicine innovations).
- 48 See Gwynn Guilford and Charity Scott, "Is it Insane to Start a Business During Coronavirus? Millions of Americans Don't Think So," *The Wall Street Journal*, (Sept. 26, 2020) available at <https://www.wsj.com/articles/is-it-insane-to-start-a-business-during-coronavirus-millions-of-americans-dont-think-so-11601092841> ("Applications for the employer identification numbers that entrepreneurs need to start a business have passed 3.2 million so far this year, compared with 2.7 million at the same point in 2019, according to the U.S. Census Bureau. That group includes gig-economy workers and other independent contractors who may have struck out on their own after being laid off."); *see also* Lauren Bauer *et al.*, "Ten Facts about COVID-19 and the U.S. Economy," *The Brookings Institution*, (Sept. 17, 2020) available at <https://www.brookings.edu/research/ten-facts-about-covid-19-and-the-u-s-economy/> (noting that by mid-August 2020 there were 56% more new business applications for high-propensity businesses (i.e., those new businesses that are most likely to become employers) than in mid-August 2019).
- 49 This data includes businesses that have conducted either a Regulation Crowdfunding offering or a parallel Regulation Crowdfunding and Rule 506(c) offering since May 2016. *See* Crowdfund Capital Advisors and Small Business and Entrepreneurship Council, "Regulation Crowdfunding by Congressional District: A Report Card," (Sep. 2020) available at <https://crowdfundcapitaladvisors.com/regulation-crowdfunding-by-congressional-district-a-report-card/>.
- 50 This graphic is based on DERA data. Because of lags in offering qualifications, withdrawals, and abandonments, for greater comparability, this analysis considers all initiated Regulation Crowdfunding offerings and does not exclude offerings that are subsequently withdrawn or abandoned.
- 51 The data in this graphic includes businesses that have conducted either a Regulation Crowdfunding offering or a parallel Regulation Crowdfunding and Rule 506(c) offering since May 2016. *See* Crowdfund Capital Advisors and Small Business and Entrepreneurship Council, *supra* note 49.
- 52 *See id.*
- 53 This graphic is based on DERA data. *See supra* note 6 for a description of the methodology used to calculate this data.
- 54 This graphic is based on DERA data. This graphic includes all industries that accounted for over five percent of the reported amounts raised by non-pooled fund issuers during one of the respective periods. Offerings by non-pooled fund issuers in other industries accounted for approximately \$38.6 billion and \$28.3 billion in the nine months ended 2019 and 2020, respectively. *See supra* note 6 for a description of the methodology used to calculate this data.
- 55 This graphic is based on DERA data. Because of lags in offering qualifications, withdrawals, and abandonments, for greater comparability, this analysis considers all initiated Regulation A offerings (whether qualified or not) and does not exclude offerings that are subsequently withdrawn or abandoned. Due to lags and bunching in proceeds data and temporary relief provided to Regulation A in March 2020, the dollar amounts in this graphic are based on the amounts sought (in \$ million) in qualified Regulation A offerings and not on reported proceeds.
- 56 *Id.* This graphic includes all industries that accounted for over five percent of the aggregate amounts sought in qualified Regulation A offerings during one of the respective periods. Additional offerings accounted for approximately \$229 million and \$298 million in the nine months ended 2019 and 2020, respectively.
- 57 *See* Tom Zanki, "3 Ways the Pandemic has Changed how IPOs are Done," *Law 360*, (May 22, 2020) available at <https://www.law360.com/articles/1275330/3-ways-the-pandemic-has-changed-how-ipos-are-done>.
- 58 *See id.*
- 59 *See id.* *See also* Fabiane Goldstein, "Virtual IPOs: Temporary or Definitive Solution?," *IR Magazine*, (June 18, 2020) available at <https://www.irmagazine.com/sell-side/virtual-ipos-temporary-or-definitive-solution>; *see also* Crystal Tse, "IPOs Boom with Lasting Pandemic Effect on How Deals Get Done," *Bloomberg News*, (Jul. 14, 2020) available at <https://news.bloomberglaw.com/corporate-governance/ipos-boom-with-pandemics-lasting-effect-on-how-deals-get-done>; *see also* Joe Reinhardt, "Five Takeaways for Doing an IPO in the Pandemic," *Bloomberg Law*, (Nov. 9, 2020) available at <https://news.bloomberglaw.com/securities-law/five-takeaways-for-doing-an-ipo-in-the-pandemic>.

- 60 See Leah Hodgson, "Virtual IPO Roadshows could Become the New Post-Crisis Standard," *PitchBook*, (Jun. 10, 2020) available at <https://pitchbook.com/news/articles/virtual-ipo-roadshows-post-crisis>; see also Nina Trentman, "Companies Find a Lot to Like About Virtual IPOs," CFO Journal, *The Wall Street Journal*, (Jul. 2, 2020) available at <https://www.wsj.com/articles/companies-find-a-lot-to-like-about-virtual-ipos-11593700622>; and Tom Zanki, *supra* note 57.
- 61 See Nina Trentman, *supra* note 60.
- 62 See Crystal Tse, *supra* note 59.
- 63 See *id.*
- 64 See Tom Zanki, *supra* note 57.
- 65 See Leah Hodgson, *supra* note 60.
- 66 See Tom Zanki, *supra* note 57.
- 67 See Crystal Tse, *supra* note 59. See also Tom Zanki, *supra* note 57.
- 68 See Scott Murdoch and Joshua Franklin, "Virtual Certainty? Bankers Ask if Success of Remote Roadshows will Last," *Reuters*, (Jun. 5, 2020) available at <https://www.reuters.com/article/us-health-coronavirus-banks-roadshows/virtual-certainty-bankers-ask-if-success-of-remote-roadshows-will-last-idUSKBN23COTM>; see also Tom Zanki, *supra* note 57.
- 69 This graphic is based on DERA data.
- 70 This graphic is based on DERA data, excluding IPOs filed by pooled funds. See also Kristin Broughton and Mark Maurer, "Why Finance Executives Choose SPACs: A Guide to the IPO Rival," *The Wall Street Journal*, (Sep. 23, 2020) available at <https://www.wsj.com/articles/why-finance-executives-choose-spacs-a-guide-to-the-ipo-rival-11600828201>, citing data provider Dealogic.
- 71 See Joe Reinhardt, *supra* note 59. This graphic is based on DERA data, excluding IPOs filed by pooled funds. This graphic includes all industries that accounted for over five percent of the IPO proceeds during one of the respective periods. Additional offerings accounted for approximately \$2.6 billion and \$5.9 billion in the nine months ended 2019 and 2020, respectively. SPACs accounted for approximately 44% of the number of IPOs and 46% of the total IPO proceeds, each over the nine months ended September 30, 2020. A SPAC is a publicly traded company that raises cash for the purposes of acquiring a closely held firm and, through the deal, taking it public. SPACs often focus on companies within a particular industry. Deals for technology—particularly biotechnology—and transportation companies have been popular for SPACs recently. See also Kristin Broughton and Mark Maurer, *supra* note 70, citing data provider Dealogic.
- 72 See Kyle Stanford, "Alternative Sources of Financing for Startups," *PitchBook*, (Feb. 11, 2020) at 12, available at <https://pitchbook.com/news/reports/q1-2020-pitchbook-analyst-note-alternative-sources-of-financing-for-startups> ("VC is not a fit for all companies, business models or founder personalities. It begins an implicit, and sometimes very explicit, need for the company to produce hyper-growth-sized metrics to raise further capital and eventually exit at a huge valuation.").
- 73 See Kenan Institute, "Frontiers of Entrepreneurship 2020 Trends Report," (Jan. 2020) at 12, available at <https://frontiers.unc.edu/index.php/trends-in-entrepreneurship-report>.
- 74 Victor Hwang, et al., "Access to Capital for Entrepreneurs: Removing Barriers," *Ewing Marion Kauffman Foundation*, (April 2019) at 4, available at https://www.kauffman.org/wp-content/uploads/2019/12/CapitalReport_042519.pdf.
- 75 See Jessica Looze and Sameeksha Desai, "Challenges Along the Entrepreneurial Journey: Considerations for Entrepreneurship Supporters," *Ewing Marion Kauffman Foundation*, (May 2020) at 5, available at <https://www.kauffman.org/wp-content/uploads/2020/05/Challenges-Along-The-Entrepreneurial-Journey.pdf>. Percentages add to more than 100 because respondents could select multiple options.
- 76 See Kyle Stanford, *supra* note 72, at 2.
- 77 See Federal Reserve Banks, "2020 Report on Employer Firms: Small Business Credit Survey," (2020) at 6, available at <https://www.fedsmb-business.org/medialibrary/FedSmallBusiness/files/2020/2020-sbcs-employer-firms-report>. Percentages add to more than 100 because respondents could select multiple options.
- 78 See Kyle Stanford, *supra* note 72, at 3.
- 79 See Yuka Hayashi and Anthony DeBarros, "Emergency Grants to Small Businesses Average \$4,360, Data Shows," *The Wall Street Journal*, (Apr. 22, 2020) available at <https://www.wsj.com/articles/emergency-grants-to-small-businesses-average-4-360-data-shows-11587556783>.
- 80 See Hello Alice, "The Impact of COVID-19 on Hispanic & Latinx Business Owners," (Sept. 2020) at 9, available at https://alice-data-production.s3.us-east-2.amazonaws.com/data_reports/latino_and_hispanic_business_report_covid19_jmpanct.pdf.
- 81 See Federal Reserve Banks, "2020 Report on Employer Firms: Small Business Credit Survey" (2020) at 7, available at <https://www.fedsmb-business.org/medialibrary/FedSmallBusiness/files/2020/2020-sbcs-employer-firms-report>.
- 82 See Darryl E. Getter, "Small Business Credit Markets and Selected Policy Issues," *Congressional Research Service*, (Aug. 20, 2019) at 9, available at <https://crsreports.congress.gov/product/pdf/R/R45878>.
- 83 See Gregory Brown et al., "Filling the U.S. Small Business Funding Gap," *Frank Hawkins Kenan Institute of Private Enterprise*, (Feb. 2020) at 7, available at https://uncipe.org/wp-content/uploads/2020/02/FundingGap_02042020.pdf.

- 84 See Darryl E. Getter, *supra* note 82, at 10-11.
 85 See *id.* at 6.
 86 See Kyle Stanford, *supra* note 72, at 9.
 87 See *id.* at 10.
 88 See Jeffrey Sohl, “The Angel Market in 2019: Commitments by Angels Increase with a Significant Rise in Deal Valuations,” *Center for Venture Research*, (May 5, 2020).
 89 Kyle Stanford, “Angels: Foundational Investors to VC,” *PitchBook*, (Sep. 1, 2020) at 7, available at https://files.pitchbook.com/website/files/pdf/Q3_2020_PitchBook_Analyst_Note_Angels_Foundational_Investors_to_VC.pdf.
 90 See *id.* at 10.
 91 See PitchBook, “What Are The Private Markets?” (Nov. 1, 2018) at 13, available at <https://pitchbook.com/blog/what-are-the-private-markets>.
 92 See CB Insights, “What is Venture Capital?” (2020) at 31, available at https://www.cbinsights.com/reports/CB-Insights_What-is-Venture-Capital.pdf?utm_campaign=marketing_what-is-vc_2020-05&utm_medium=email&_hsmi=88604078&_hsenc=p2ANqtz-9H9tufoV2LjHkDYUclIskAdqOvNXH0jy8QvxK-Dgs2W693FgDiAgsQCKE2Xe5_pMrv_NP-Ggqme05NsvF-bU4bxuL3eoHfg&utm_content=88604078&utm_source=hs_automation.
 93 See PitchBook-NVCA, “Venture Monitor Q4 2019,” (Jan. 13, 2020) at 7, available at <https://pitchbook.com/news/reports/q4-2019-pitchbook-nvca-venture-monitor>.
 94 See *id.* at 7 and 9.
 95 See *id.* at 9.
 96 See Startup Genome, “The Global Startup Ecosystem Report GSER 2020: The New Normal for the Global Startup Economy and the Impact of COVID-19,” (June 2020) at 20, available at <https://startupgenome.com/reports/gser2020>.
 97 See PitchBook-NVCA, *supra* note 47, at 7.
 98 See *id.* at 8 (“First time equity financings have declined to just 23.7% of total completed financings in Q3 2020, compared with 27.3% in Q3 2019.”).
 99 See PitchBook, “2020 Venture Capital Outlook: H1 Follow-Up,” (Jul. 6, 2020) at 2 (“The previous trajectory of increased valuations and deal activity for seed-stage companies has stalled in the last six months, as startups no longer have the leverage to command the frothy valuations they previously enjoyed. Seed-stage investors have also been focusing their efforts internally toward current portfolio companies, leaving less time for sourcing deals and performing due diligence.”).
 100 See PitchBook-NVCA, *supra* note 47, at 7.
 101 See *id.*
 102 See Wylie Fernyhough *et al.*, “US PE Breakdown,” PitchBook, (Oct. 8, 2020) at 4, available at https://files.pitchbook.com/website/files/pdf/PitchBook_Q3_2020_US_PE_Breakdown.pdf.
 103 See CB Insights, *supra* note 92, at 35.
 104 See Kyle Stanford and Darren Klees, “Analyst Note: The Effect of Capital Resources on Deal-making: Can Patterns in VC Resources Help Pinpoint Underfunded Ecosystems?,” *PitchBook*, (Nov. 15, 2019) at 3, available at https://files.pitchbook.com/website/files/pdf/4Q_2019_PitchBook_Analyst_Note_The_Effect_of_Capital_Resources_on_Dealmaking.pdf. The three metro areas include: San Jose-San Francisco-Oakland, CA (43%), New York-Newark, NY-NJ-CT-PA (16%), and Boston-Worcester-Providence, MA-RI-NH-CT (11%). The percentages are based on number of funds that have closed since 2015.
 105 See Jason D. Rowley, “Inside The Ups And Downs Of The VC J-Curve,” *Crunchbase News*, (Nov. 20, 2019) available at <https://news.crunchbase.com/news/inside-the-ups-and-downs-of-the-vc-j-curve/#:~:text=Though%20there%20are%20exceptions%2C%20the,%2C%20in%20one%2Dyear%20increments> (noting that general partners may negotiate extensions to a fund’s lifespan, typically between one and three years, generally in one-year increments); but see Cameron Stanfill *et al.*, “Analyst Note: Shadow Capital in Venture Investing: Estimating Nontraditional Investor Participation in VC Dealmaking,” *PitchBook*, (Jun. 5, 2020) at 2, available at https://files.pitchbook.com/website/files/pdf/PitchBook_Q2_2020_Analyst_Note_Shadow_Capital_in_Venture_Investing.pdf (noting that nontraditional investors that have historically accessed venture capital in a limited partner capacity are doubling down on their direct venture capital investing practices).
 106 See Stanfill, *supra* note 105, at 2 and 7 (also noting that the “diversity of nontraditional investor types and the strategies within those groups makes generalizing about the group extremely difficult”).
 107 See *id.* at 5 (noting that “[s]o far in 2020, corporate VC investors have participated in 55.5% of deal value despite participating in just 29.5% of completed deals, and SWFs have participated in 16% of deal value in while being present in just 1.2% of deals. Overall, U.S. venture deals with nontraditional participation added \$106 billion and \$96 billion worth of deal value to market totals in 2018 and 2019, respectively, representing more than 70% of total deal value participation each year by non-traditional investors”).

- 108 *See id.* at 1.
- 109 *See* Josh Lerner and Ramana Nanda, "Venture Capital's Role in Financing Innovation: What We Know and How Much We Still Need to Learn," 34 *Journal of Economic Perspectives* 237-261 (Summer 2020) at 252, *available at* https://www.nber.org/system/files/working_papers/w27492/w27492.pdf.
- 110 *See* Kyle Stanford and Darren Klees, *supra* note 104, at 8-9 ("Companies looking for seed financings generally work through local investor networks first, while later stages generally require large funding vehicles that may not be located nearby. This trend holds distinctly in the data. The median distance between a target company and lead investor for late-stage deals in the U.S. notched over 400 miles so far in 2019, while the median distance for seed deals is just under 100 miles between the lead investor and target company."). The authors further note that "[f]unds tend to cluster in areas with investable companies rather than stationing themselves in promising areas with the hope of attracting founders to create new enterprises." *Id.* at 4.
- 111 *See id.* at 4.
- 112 *See* Michael J. Mauboussin and Dan Callahan, "Public to Private Equity in the United States: A Long-Term Look," *Morgan Stanley*, (Aug. 4, 2020) at 46, *available at* https://www.morganstanley.com/im/publication/insights/articles_articles_publicprivateequityintheusalongtermlook_us.pdf?1607362418999.
- 113 *See* "Road to Next," *Deloitte*, (2020) at 7, *available at* <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/audit/us-audit-road-to-next-q2-2020.pdf>.
- 114 *See* Silicon Valley Bank, "2020 Global Startup Outlook" (Feb. 2020) at 7, *available at* https://www.svb.com/globalassets/library/uploadedfiles/content/trends_and_insights/reports/startup_outlook_report/suo_global_report_2020-final.pdf.
- 115 *See* Josh Lerner and Ramana Nanda, *supra* note 109, at 240.
- 116 *See* Peter Iliev and Michelle Lowry, "Venturing Beyond the IPO: Financing of Newly Public Firms by Venture Capitalists," *The Journal of Finance*, (Jan. 2020) at 1, *available at* <https://onlinelibrary.wiley.com/doi/full/10.1111/jofi.12879> ("In a sample of private firms that go public for the first time, 15% of the firms backed by VC financing prior to the IPO received additional funding from VCs within the first five years after the IPO. Approximately half of these post-IPO VC financings were from the same VC that funded the company prior to the IPO. Press releases on these financings provide suggestive evidence of their importance to the underlying companies.").
- 117 *See* Will Gornall, "Venture Capitalists and COVID-19," Harvard Law School Forum on Corporate Governance, (Sep. 1, 2020) *available at* <https://corpgov.law.harvard.edu/2020/09/01/venture-capitalists-and-covid-19> (citing Paul Gompers, et al., "Venture Capitalists and COVID-19," (Oct. 2020) *available at* https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3669345).
- 118 *See id.*
- 119 *See* Deloitte, *supra* note 113, at 12.
- 120 *See* PitchBook-NVCA, *supra* note 47, at 9 ("Early-stage VC deal activity showed signs of rebounding in Q3 2020 with \$9.2 billion raised across 657 deals" This compares to \$8.2 billion raised over 764 deals).
- 121 *See id.* at 5, 11 (deals over \$100 million have not seen much change, with 223 deals valued at \$53.2 billion (of which 189 were late stage deals), which puts them relatively on par with 2019 (242 deals at \$55.3 billion)).
- 122 *See id.* at 31.
- 123 *See id.* at 32.
- 124 *See* Cameron Stanfill, et al., "Analyst Note: 2020 Venture Capital Outlook: H1 Follow-Up," *PitchBook*, (Jul. 6, 2020) at 8-9, *available at* <https://pitchbook.com/news/reports/2020-pitchbook-analyst-note-venture-capital-outlook-h1-follow-up>.
- 125 *See* PitchBook-NVCA, *supra* note 47.
- 126 Data on U.S. listed domestic firms was estimated by DERA based on the Center for Research in Security Prices (CRSP) database. The analysis includes U.S. common stocks (share codes 10 and 11) listed on NYSE, NYSE MKT, and Nasdaq. The analysis excludes investment funds and trusts (Standard Industrial Classification codes 6722, 6726, 6798, and 6799). A company with several classes of shares is counted once. Data for 2020 represents the number of listed firms and market capitalization as of September 30, 2020. The numbers included in this graphic differ slightly from the graphic included in the Office of the Advocate for Small Business Capital Formation's Annual Report for Fiscal Year 2019 at 24 (note 69), which was based on World Bank Group Open Data.
- 127 *See* Michael J. Mauboussin and Dan Callahan, *supra* note 112, at 3.
- 128 *See id.* at 26.
- 129 *See id.* at 25.
- 130 *See id.* at 30.
- 131 *See id.* at 3. The amount included in the graphic for U.S. domestic equity mutual funds does not include \$4.7 trillion in separately managed accounts.
- 132 *See id.* at 8 (examining data from 1984 to 2015).
- 133 *See id.* at 9 (examining data from 1984 to 2013).

- 134 This graphic is based on DERA data. Registered offering data was collected from Thomson Financial's SDC Platinum database. Small public companies include public companies with a size less than or equal to \$250 million on the date of the offering, calculated by multiplying price of the company's stock at the close of the day of the offering by the number of outstanding shares on the day of the offering. Data from the Center for Research in Securities Prices (CRSP), Dealogic, and Compustat were used to fill in missing information from SDC Platinum. Mutual funds and Closed-end funds are excluded from the statistics. Those companies missing a stock price or number of outstanding shares are not included in the statistics.
- 135 See Michael J. Mauboussin and Dan Callahan, *supra* note 112 at 5.
- 136 See *id.* at 26.
- 137 See *id.* at 26 (stating that the percentage of small companies that grew into medium or large companies in the 1990's was between 15-20% and has now been cut in half).
- 138 See *id.* at 26; Chris Joseph, "What Are the Benefits of Becoming a Public Company?," *Houston Chronicle*, available at <https://smallbusiness.chron.com/benefits-becoming-public-company-41667.html>; see also Kenan Institute, *supra* note 73, at 26.
- 139 See Cameron Stanfill and Van Le, "Analyst Note: Index of Venture-Backed IPOs: An Analysis," *PitchBook*, (Aug. 13, 2020) at 3, available at https://files.pitchbook.com/website/files/pdf/PitchBook_Q3_2020_Analyst_Note_Index_of_Venture-Backed_IPOs_an_Analysis.pdf.
- 140 See PricewaterhouseCoopers, "Considering an IPO? First, Understand the Costs," available at <https://www.pwc.com/us/en/services/deals/library/cost-of-an-ipo.html>. These costs included fees related to underwriting, SEC registration, legal, accounting, FINRA, exchange listing, printing and miscellaneous. This data shows that for offerings with a deal value between \$25 million and \$99 million, the costs were a larger percentage of the deal value (10% to 15%) as compared to larger deals (generally between 6% and 10% of the total deal value).
- 141 See Michael J. Mauboussin and Dan Callahan, *supra* note 112 at 27; Kenan Institute, *supra* note 73, at 26.
- 142 See Cameron Stanfill *et al.*, "Analyst Note: Index of Venture-Backed IPOs: New Tools for Evaluating Price Performance of VC-Backed IPOs," *PitchBook*, (May 21, 2020) at 1, available at https://files.pitchbook.com/website/files/pdf/PitchBook_Q2_2020_Analyst_Note_Index_of_Venture-Backed_IPOs.pdf.
- 143 See Cameron Stanfill and Van Le, *supra* note 139, at 5.
- 144 See Michael J. Mauboussin and Dan Callahan, *supra* note 112, at 26.
- 145 See Josh Lerner and Ramana Nanda, *supra* note 109, at 5.
- 146 See Michael J. Mauboussin and Dan Callahan, *supra* note 112, at 48.
- 147 Registered equity offering data includes IPOs and registered secondary equity offerings and was collected by DERA from Thomson Financial's SDC Platinum database. Small public companies include public companies with a size less than or equal to \$250 million on the date of the offering, calculated by multiplying price of the company's stock at the close of the day of the offering by the number of outstanding shares on the day of the offering. Data from the Center for Research in Securities Prices (CRSP) and Compustat was used to fill in missing information on price and outstanding shares from SDC Platinum. Those companies with missing a stock price on the offering day or number of outstanding shares are not included in the statistics. The offerings with missing data include: 44 IPO offerings in 2019 (18% of the total IPO offerings in 2019), 42 secondary equity offerings in 2019 (6% of the total registered equity offerings in 2019), 41 IPO offerings in 2020 (14% of the total IPO offerings in 2020), and 36 secondary equity offerings in 2020 (4% of the total registered equity offerings in 2020). Registered debt offerings have been excluded due to the omission of a significant portion of the relevant data in SDC Platinum, CRSP and Compustat databases to calculate the size of the registered debt issuers during this period.
- 148 See *supra* note 147 for a description of the methodology used to estimate registered equity offerings by small public companies. This graphic includes all industries that accounted for over five percent of the total proceeds raised in registered equity offerings by small public company during one of the respective periods, excluding offerings filed by pooled funds. Additional offerings for industries under five percent accounted for approximately \$0.9 billion and \$1.3 billion in the nine months ended 2019 and 2020, respectively. Offerings by pooled funds accounted for approximately 24 million and 100 million in the nine months ended 2019 and 2020, respectively.
- 149 See American Express, "The 2019 State of Women-Owned Businesses Report," (Sept. 2019), at 3, available at https://about.american-express.com/files/doc_library/file/2019-state-of-women-owned-businesses-report.pdf.
- 150 See *id.* at 4.
- 151 See *id.* at 6.
- 152 See *id.* at 7.
- 153 See Jeffrey Sohl, *supra* note 88 at 2.

- 154 See PitchBook-NVCA, *supra* note 93, at 25.
- 155 See Crunchbase, “Funding to the Female Founders,” (Mar. 2020) at 13-14, 16, *available at* https://about.crunchbase.com/wp-content/uploads/2020/03/Funding-To-Female-Founders_Report.pdf; *see also*, International Finance Corporation, “Venture Capital and the Gender Financing Gap: The Role of Accelerators” (Feb. 2020), at 8, *available at* <https://www.ifc.org/wps/wcm/connect/f62312ad-7ef5-4b90-b57d-6b793ae20a17/20200216-VC-WeFi-Research-Snapshot.pdf?MOD=AJPERES&CVID=n15lzm> (noting that, for startups raising funds after participating in an accelerator, male-led startups raise 2.6 times more equity than female-led startups).
- 156 See Crunchbase, *supra* note 155, at 7.
- 157 See Ian Hathaway, “The Ascent of Women-Founded Venture-Backed Startups in the United States,” *Center for American Entrepreneurship*, (Feb. 2019) at 16, *available at* <http://www.startupsusa.org/women-founded-venture-backed-startups/>.
- 158 See Gené Teare, “EoY 2019 Diversity Report: 20 Percent of Newly Funded Startups in 2019 Have a Female Founder,” *Crunchbase*, (Jan. 21, 2020) *available at* <https://news.crunchbase.com/news/eoy-2019-diversity-report-20-percent-of-newly-funded-startups-in-2019-have-a-female-founder/#:~:text=Diversity%20%E2%80%A2%20Venture-,EoY%202019%20Diversity%20Report%3A%20%20Percent%20Of%20Newly%20Funded%20Startups,2019%20Have%20A%20Female%20Founder&text=We%20close%20out%20the%20decade,2019%20having%20a%20female%20founder.&text=The%20proportion%20of%20female%20co,which%20stood%20at%2010%20percent>.
- 159 See Gené Teare, “2019 Study of Gender Diversity in Private Company Boardrooms,” *Crunchbase*, (Dec. 11, 2019) *available at* <https://news.crunchbase.com/news/2019-study-of-gender-diversity-in-private-company-boardrooms/>.
- 160 See PitchBook and All Raise, “All In: Women in the VC Ecosystem,” (Nov. 11, 2019) at 3, *available at* <https://pitchbook.com/news/reports/2019-pitchbook-all-raise-all-in-women-in-the-vc-ecosystem>.
- 161 See McKinsey & Company, “Diversity Wins: How Inclusion Matters,” (May 2020) at 3-4, *available at* <https://www.mckinsey.com/-/media/McKinsey/Featured%20Insights/Diversity%20and%20Inclusion/Diversity%20wins%20How%20inclusion%20matters-vEpdf>; *see also*, International Finance Corporation, *supra* note 155, at 11 (citing several recent studies showing that startups with diverse leadership teams outperform and generate better returns on equity compared to startups with non-diverse teams).
- 162 See Jeffrey Sohl, *supra* note 88, at 2.
- 163 See PitchBook and All Raise, *supra* note 160, at 25.
- 164 *Id.* at 24.
- 165 See Ewing Marion Kauffman Foundation, “Who is the Entrepreneur? Race and Ethnicity, Age, and Immigration Trends among New Entrepreneurs in the United States, 1996-2019,” (2020) at 2, *available at* <https://www.kauffman.org/entrepreneurship/reports/race-ethnicity-age-immigration-trends-united-states-entrepreneurs-1996-2019/> (compared to 74.3% White, 9.6% African American/Black, 12.2% Hispanic/Latino, 3.6% Asian American/Pacific Islander in 1999). Race and ethnicity groups were reported only for Asian, Black, Latino, and White.
- 166 See Small Business Administration Office of Advocacy, “Small Business Facts: Spotlight on Minority-Owned Employer Businesses,” (May 2019) *available at* <https://cdn.advocacy.sba.gov/wp-content/uploads/2019/05/31131339/Small-Business-Facts-Spotlight-on-Minority-Owned-Employer-Businesses.pdf>.
- 167 *See id.*
- 168 Andre Perry *et al.*, “Five-Star Reviews, One-Star Profits: The Devaluation of Businesses in Black Communities,” *The Brookings Institution*, (Feb. 2020) at 11, *available at* https://www.brookings.edu/wp-content/uploads/2020/02/2020.02_DevOfBizInBlackCommunities_Perry-Rothwell-Harshbarger-final.pdf.
- 169 See Jeffrey Sohl, *supra* note 88, at 2.
- 170 See Alicia Robb, “Minority-Owned Employer Businesses and Their Credit Market Experiences in 2017,” *SBA Office of Advocacy*, (Jul. 22, 2020) at 4, 22, 26, *available at* https://cdn.advocacy.sba.gov/wp-content/uploads/2020/07/22172533/Minority-Owned-Employer-Businesses-and-their-Credit-Market-Experiences-in-2017.pdf?utm_medium=email&utm_source=govdelivery.
- 171 See RateMyInvestor and Diversity VC, “Diversity in U.S. Startups,” (Feb. 2019) at 8, *available at* https://ratemyinvestor.com/diversity_report (analyzing data on 10,000 founders and 135 venture firms).
- 172 See Marlon Nichols *et al.*, “Deconstructing the Pipeline Myth and the Case for More Diverse Fund Manager,” *Kauffman Fellows and MaC Venture Capital*, (Feb. 2020) *available at* https://www.kauffmanfellows.org/journal_posts/the-pipeline-myth-ethnicity-fund-managers.
- 173 See Kenan Institute, *supra* note 73, at 78.
- 174 See Marlon Nichols *et al.*, *supra* note 172.

- 175 *Id.*
- 176 See Jeffrey Sohl, *supra* note 88, at 2; see also, Jeffrey Sohl, “The Angel Market in 2018: More Angels Investing in More Deals at Lower Valuations,” *Center for Venture Research*, (May 9, 2019) at 3, available at <https://scholars.unh.edu/cgi/viewcontent.cgi?article=1016&context=cvr&--text=The%20average%20angel%20deal%20size,%20%20and%20subsequent%20valuations%20%20decreased>.
- 177 See NVCA and Deloitte, “Human Capital Survey,” (2018) available at <https://www2.deloitte.com/content/campaigns/us/audit/survey/diversity-venture-capital-human-capital-survey-dash-board.html>. The survey methodology allowed for selection of more than one race.
- 178 See Robert W. Fairlie, “The Impact of COVID-19 on Small Business Owners: Continued Losses and the Partial Rebound in May 2020,” *National Bureau of Economic Research*, (Jul. 2020 Working Paper) at 15, available at <http://www.nber.org/papers/w27462>; see also Claire Kramer Mills, “Double Jeopardy: COVID-19’s Concentrated Health and Wealth Effects in Black Communities,” *Federal Reserve Bank of New York*, (Aug. 2020) at 1 (“Black-owned firms are more likely to be located in COVID-19 hot spots, where as white-owned firms are less likely to be in the most heavily affected areas.”).
- 179 See Robert W. Fairlie, *supra* note 178, at 21.
- 180 Robert W. Fairlie, “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*, (Jun. 2020 Working Paper) at 9, available at <http://www.nber.org/papers/w27309>.
- 181 See Abby Vesoulis, “‘If We Had a Panic Button, We’d be Hitting it.’ Women are Exiting the Labor Force en Masse—and that’s Bad for Everyone,” *Time*, (Oct. 17, 2020) available at <https://time.com/5900583/women-workforce-economy-covid/>.
- 182 See Tatiana S. Manolova, *et al.*, “Pivoting to Stay the Course: How Women Entrepreneurs Take Advantage of Opportunities Created by the COVID-19 Pandemic,” *International Small Business Journal*, (2020) at 484, available at <https://journals.sagepub.com/doi/10.1177/0266242620949136>.
- 183 See McKinsey & Company, “COVID-19: Investing in Black Lives and Livelihoods,” (Apr. 2020) at 14, citing “Survey of Business Owners (SBO) - Survey Results: 2012,” U.S. Census Bureau, February 23, 2016, [uscensus.gov](https://www.census.gov), available at <https://www.mckinsey.com/-/media/McKinsey/Industries/Public%20and%20Social%20Sector/Our%20Insights/COVID%2019%20Investing%20in%20black%20lives%20and%20livelihoods/COVID-19-Investing-in-black-lives-and-livelihoods-report.pdf>.
- 184 See Stanford Graduate School of Business Latino Entrepreneurship Initiative, “The Ongoing Impact of COVID-19 on Latino-Owned Businesses,” (Aug. 2020) at 8, available at <https://www.gsb.stanford.edu/faculty-research/publications/ongoing-impact-covid-19-latin-owned-businesses> (noting that this is due in part to the industries in which a substantial number of scaled Latino-owned businesses are located, namely construction, accommodation and food services, and retail trade).
- 185 See Gabriel R. Sanchez *et al.*, “COVID-19 is Having a Devastating Impact on the Economic Well-Being of Latino Families,” *The Brookings Institution*, (Jul. 27, 2020) available at <https://www.brookings.edu/blog/how-we-rise/2020/07/27/covid-19-is-having-a-devastating-impact-on-the-economic-well-being-of-latin-families/>.
- 186 See Priyamvada Mathur, “Quarterly VC Funding for Female Founders Drops to Three-Year Low,” *PitchBook*, (Oct. 8, 2020) available at <https://pitchbook.com/news/articles/vc-funding-female-founders-drops-low> (The funding challenges faced by women in 2020 followed a record 2019. For example, in the first quarter of 2019 VC funding hit a decade peak (\$950 million across 207 deals) and the year ended up with a total of \$3.35 billion invested over 709 deals. While VCs have only injected about \$1.9 billion into female-founded companies so far this year.).
- 187 See Hello Alice Impact Report, “The Impact of COVID-19 on LGBTQ+ Business Owners,” (June 2020) at 10, available at https://alice-data-production.s3.us-east-2.amazonaws.com/data_reports/20200908_LGBTQ%2B_Owned-CovidImpactReport.pdf.
- 188 *See id.*
- 189 National Venture Capital Association, *supra* note 24 at 12 (“The capital crunch in the industry will be felt across the board, but perhaps most acutely by founders and investors in historically underrepresented groups, in emerging venture ecosystems, and smaller (<\$100 million) and new venture fund managers.”).
- 190 *See* <https://www.ncdc.noaa.gov/billions/>.
- 191 *See* <https://www.practicalbusinessskills.com/managing-a-business/planning-for-emergencies/disaster-preparedness> (quoting the “2017 Small Business Credit Survey – Report on Disaster-Affected Firms,” Federal Reserve Banks).
- 192 *See* https://www.fema.gov/media-library-data/1441212988001-1aa-7fa978c5f999ed088dcaa815cb8cd/3a_BusinessInfographic-1.pdf.

- 193 Data from the U.S. Census Bureau, American Community Survey (ACS) was used by DERA to estimate the population in zip codes affected by the natural disasters as described in *infra* note 198. However, certain zip codes were identified as missing population values, so the percentage is likely underestimated.
- 194 This graphic is based on DERA data. Evaluated from July 1, 2017 to June 30, 2020 using zip codes affected by natural disasters. Zip codes designated as affected are defined as having one or more residents approved for housing assistance under FEMA's IHP program for natural disasters with classifications of Major Disaster Declaration and incident start dates between July 1, 2017 and June 30, 2020. Given the trailing impact caused by natural disasters, each zip code affected in that three year period was included. Classification of disaster areas are based on FEMA Disaster Declaration Summaries data and FEMA Housing Assistance Program Data at <https://www.fema.gov/about/openfema/data-sets>, updated on August 1, 2020. The classification method for disaster areas is based on the methodology in the "2017 Small Business Credit Survey – Report on Disaster-Affected Firms," Federal Reserve Banks of Dallas, New York, Richmond, and San Francisco, *available at* <https://www.newyorkfed.org/medialibrary/media/smallbusiness/2017/SBCS-Report-on-Disaster-Affected-Firms.pdf>.
- 195 Evaluated from July 1, 2017 to June 30, 2020 using zip codes affected by natural disasters as described in *supra* note 194.
- 196 See Appalachian Regional Commission, "Entrepreneurial Ecosystems in Appalachia, Literature Review" (Sept. 2018) at 23, *available at* <http://www.arc.gov/wp-content/uploads/2018/09/EntrepreneurialEcosystemsLiteratureReview2018.09.pdf>; *see also* Center on Rural Innovation, "The Power of Capital in Rural Entrepreneurship" (Sep. 22, 2020) *available at* <https://rurallinnovation.us/access-to-capital/>.
- 197 CDFIs are financial institutions that share a common goal of expanding economic opportunity in low-income communities by providing access to financial products and services for local residents and businesses. A CDFI may be a bank, credit union, loan fund, microloan fund or venture capital fund, https://www.cdifund.gov/Documents/CDFI_infographic_v08A.pdf.
- 198 These include grants, loans, loan guarantees, and equity products offered by the Department of Commerce's Economic Development Administration, the Department of Treasury's CDFI Fund, the SBA, and USDA's Rural Development.
- 199 See "FDIC Quarterly—Quarterly Banking Profile: Fourth Quarter 2019" at 35, *available at* <https://www.fdic.gov/bank/analytical/quarterly/2020-vol14-1/fdic-v14n1-4q2019-article.pdf>.
- 200 See Center for American Progress, *Redefining Rural America*, (Jul. 17, 2019) at 2 and 4, *available at* https://cdn.americanprogress.org/content/uploads/2019/07/17050340/redefining-rural-america_brief1.pdf. For purposes of this report, a rural area means a nonmetropolitan area.
- 201 See Daniel Wilmoth, PhD, "Growth in Number of Rural Establishments," *Office of Advocacy, U.S. Small Business Administration*, (Dec. 2019) *available at* <https://cdn.advocacy.sba.gov/wp-content/uploads/2020/02/04111621/Rural-Business-Growth-Fact-Sheet1.pdf>.
- 202 Data from the U.S. Census Bureau, American Community Survey (ACS), and the U.S. population growth rate from World Bank was used by DERA to estimate the population in zip codes in rural areas. Classification of rural areas are based on the list of 2019 Q4 rural area zip codes from the Center for Medicare & Medicaid Services, *available at* <https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/FeeScheduleGenInfo>.
- 203 See The Board of Governors of the Federal Reserve System, "Small Business Credit Survey: 2019 Report on Employer Firms" (2019) at 29, *available at* <https://www.fedsmbusiness.org/medialibrary/fedsmbusiness/files/2019/sbcs-employer-firms-report.pdf>.
- 204 This graphic is based on DERA data. Classification of rural areas are based on the list of 2019 Q4 rural area zip codes from the Center for Medicare & Medicaid Services, as described in *supra* note 202.
- 205 See Amy Cortese, *Locavesting: The Revolution in Local Investing and How to Profit From It* (2011).
- 206 https://www.sec.gov/files/2019_OASB_Annual%20Report.pdf.
- 207 See Small Business Administration, Office of Advocacy, "Small Business Economic Bulletin: April 2020," *available at* <https://cdn.advocacy.sba.gov/wp-content/uploads/2020/04/30103025/April-2020-Econ-Bulletin.pdf> ("Small firms (fewer than 500 employees) accounted for 9.3 million net new private-sector jobs from 2005 to 2019, or 64 percent of the total. While job creation tends to fluctuate from one quarter to the next, small firms created more jobs than large firms in 8 of the last 12 quarters of available data.").
- 208 See Neil Bhutta *et al.*, "Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances," *FEDS Notes, Board of Governors of the Federal Reserve System*, (Sept. 28, 2020) *available at* <https://doi.org/10.17016/2380-7172.2797> ("White families have the highest level of both median and mean family wealth: \$188,200 and \$983,400, respectively. Black and Hispanic families have

- considerably less wealth than White families. Black families' median and mean wealth is less than 15 percent that of White families, at \$24,100 and \$142,500, respectively. Hispanic families' median and mean wealth is \$36,100 and \$165,500, respectively.").
- 209 "Concept Release on Harmonization of Securities Offering Exemptions," Rel. No. 33-10649 (Jun. 18, 2019) *available at* <https://www.sec.gov/rules/concept/2019/33-10649.pdf>.
- 210 "Proposed Rule: Facilitating Capital Formation and Expanding Investment Opportunities by Improving Access to Capital in Private Markets," Rel. No. 33-10763, *available at* <https://www.sec.gov/rules/proposed/2020/33-10763.pdf>.
- 211 "Final Rule: Facilitating Capital Formation and Expanding Investment Opportunities by Improving Access to Capital in Private Markets," Rel. No. 33-10884, *available at* <https://www.sec.gov/rules/final/2020/33-10884.pdf>.
- 212 See "Founder Demographics & Capital Formation" section of the Report above.
- 213 See "Rural Communities and Capital Formation" section of the Report above.
- 214 See *Report on the 39th Annual Small Business Forum* (Jun. 18, 2020) *available at* https://www.sec.gov/files/2020-oasb-forum-report-final_0.pdf; see also Transcript of Small Business Capital Formation Advisory Committee Meeting (Aug. 4, 2020) *available at* <https://www.sec.gov/info/smallbus/acsec/sbfcac-transcript-080420.pdf>.
- 215 "Notice of Proposed Exemptive Order Granting Conditional Exemption from the Broker Registration Requirements of Section 15(a) of the Securities Exchange Act of 1934 for Certain Activities of Finders," Release No. 34-90112, *available at* <https://www.sec.gov/rules/exorders/2020/34-90112.pdf>.
- 216 "Final Rule: Accredited Investor Definition," *supra* note 14.
- 217 See, e.g., Roundtable on Capital Formation Between the Coasts, May 6, 2019, at minutes 42-48, archived webcast *available at* https://www.sec.gov/video/webcast-archive-player.shtml?document_id=sbround050619.
- 218 See, e.g., Virtual Small Business Forum (June 18, 2020) *available at* <https://www.sec.gov/oasb/sbforum>.
- 219 See "Founder Demographics & Capital Formation" section of the Report above.
- 220 See Sarah Lyons-Padilla, et. al., "Race Influences Professional Investors' Financial Judgments," *Proceedings of the National Academy of Sciences of the United States of America*, (Aug. 27, 2019) *available at* <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC6717274/>.
- 221 See Amy Cortese, *supra* note 205.
- 222 See "Small Public Companies" section of the Report above.
- 223 See e.g., SEC Press Release 2020-58, *SEC Adopts Amendments to Reduce Unnecessary Burdens on Smaller Issuers by More Appropriately Tailoring the Accelerated and Large Accelerated Filer Definitions* (Mar. 12, 2020) *available at* <https://www.sec.gov/news/press-release/2020-58>; SEC Press Release 2020-118, *SEC Adopts Amendments to Improve Financial Disclosures about Acquisitions and Dispositions of Businesses* (May 21, 2020) *available at* <https://www.sec.gov/news/press-release/2020-118>; SEC Press Release 2020-192, *SEC Adopts Rule Amendments to Modernize Disclosures of Business, Legal Proceedings, and Risk Factors Under Regulation S-K* (Aug. 26, 2020) *available at* <https://www.sec.gov/news/press-release/2020-192>; and SEC Adopts Amendments to Modernize and Enhance Management's Discussion and Analysis and other Financial Disclosures (Nov. 19, 2020) *available at* <https://www.sec.gov/news/press-release/2020-290>.
- 224 See "COVID-19 and Capital Formation – What is happening in the initial public offering (IPO) market?" section of the Report above.
- 225 A SPAC is a publicly traded company that raises cash for the purposes of acquiring a closely held firm and, through the deal, taking it public. See *supra* note 71.
- 226 See <https://www.sec.gov/page/small-business-capital-formation-advisory-committee>.
- 227 See SEC Press Release 2019-61, *SEC Announces Members of Small Business Capital Formation Advisory Committee* (Apr. 25, 2019) *available at* <https://www.sec.gov/news/press-release/2019-61>.
- 228 See SEC Press Release 2020-171, *SEC Announces New Small Business Capital Formation Advisory Committee Members* (Aug. 4, 2020) *available at* <https://www.sec.gov/news/press-release/2020-171>.
- 229 "Concept Release on Harmonization of Securities Offering Exemptions," *supra* note 209.
- 230 "Proposed Rule: Amending the "Accredited Investor" Definition," Release No. 33-10734 (Dec. 18, 2019) *available at* <https://www.sec.gov/rules/proposed/2019/33-10734.pdf>.
- 231 "Final Rule: Accredited Investor Definition," *supra* note 14.
- 232 "Order Designating Certain Professional Licensees as Qualifying Natural Persons for Accredited Investor Status Pursuant to Rule 501(a)(10) under the Securities Act of 1933," Release No. 33-10823 (Aug. 26, 2020) *available at* <https://www.sec.gov/rules/other/2020/33-10823.pdf>.

- 233 See "Final Rule: Facilitating Capital Formation and Expanding Investment Opportunities by Improving Access to Capital in Private Markets," Release Nos. 33-10884; 34-90300; IC-34082 (Nov. 2, 2020) *available at* <https://www.sec.gov/rules/final/2020/33-10844.pdf>.
- 234 See Jay Clayton, Chairman, SEC, Remarks at Meeting of the Small Business Capital Formation Advisory Committee (Nov. 12, 2019) *available at* <https://www.sec.gov/news/public-statement/clayton-remarks-small-business-capital-formation-advisory-committee-111219>.
- 235 See Dalia Blass, Director, Division of Investment Management, Speech: PLI Investment Management Institute (July 28, 2020) *available at* <https://www.sec.gov/news/speech/blas-speech-pli-investment-management-institute>.
- 236 See "Temporary Amendments to Regulation Crowdfunding," Release No. 33-10781 (May 4, 2020) *available at* <https://www.sec.gov/rules/interim/2020/33-10781.pdf>.
- 237 See "Temporary Amendments to Regulation Crowdfunding: Extension," Release No. 33-10829 (Aug. 28, 2020) *available at* <https://www.sec.gov/rules/interim/2020/33-10829.pdf>.
- 238 See <https://www.sec.gov/info/smallbus/acsec/acsec-recommendation-051517-finders.pdf>.
- 239 See <https://www.sec.gov/oasb/sbforum>.
- 240 See <https://www.sec.gov/spotlight/sbcfac/sbcfac-learn-from-data.pdf>.
- 241 See https://www.sec.gov/files/2020_Diversity_and_Inclusion_Strategic_Plan.pdf.

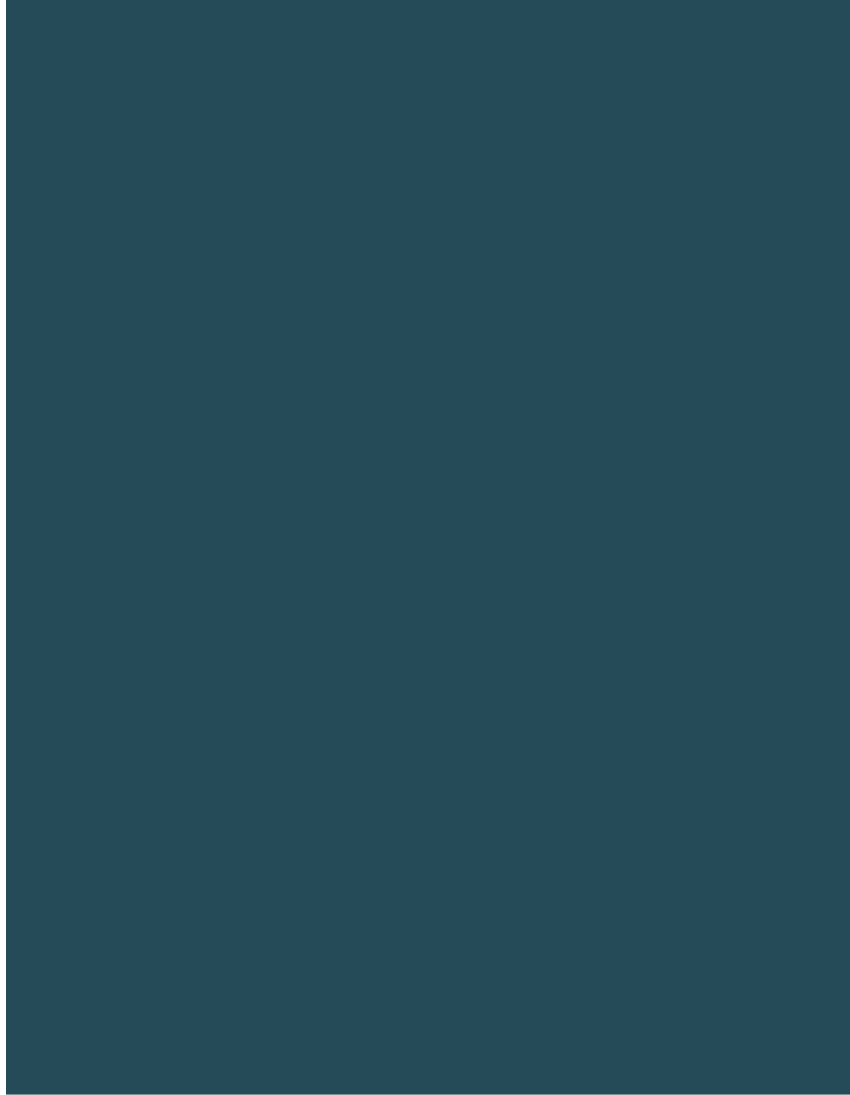
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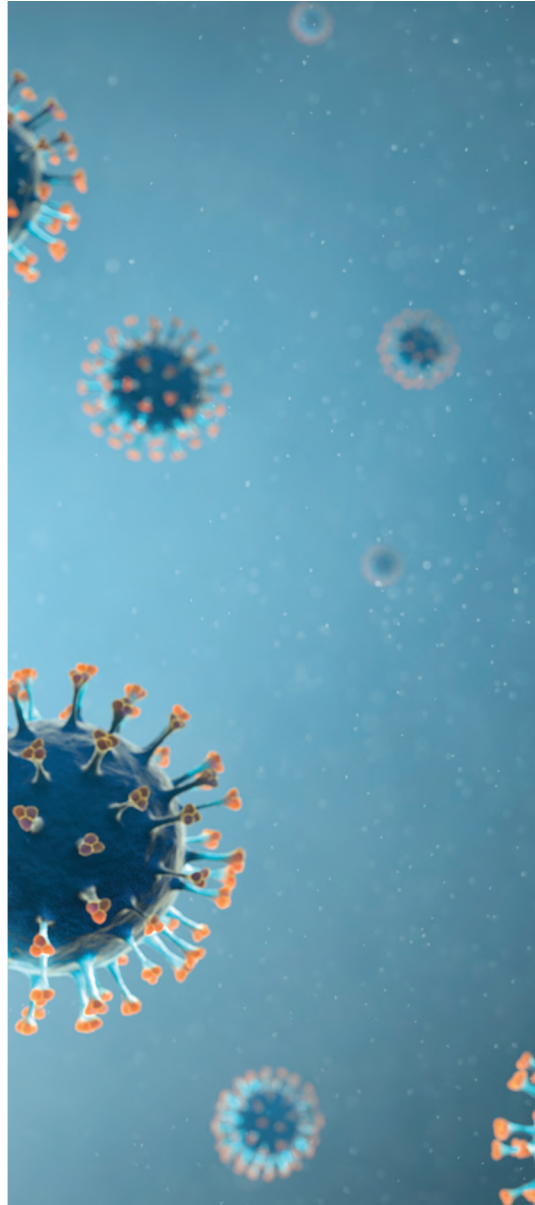
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February 3, 2021

The Honorable Maxine Waters
Chairwoman
U.S. House Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Jim A. Himes
Chairman
Subcommittee on National Security,
International Development and Monetary Policy
U.S. House Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

RE: Importance of reauthorizing the State Small Business Credit Initiative

Dear Chairwoman Waters and Chairman Himes:

As a representative of America's 30 million small businesses, Small Business Majority writes today to share comments on the success of the State Small Business Credit Initiative (SSBCI) and the importance of reauthorizing this program to better serve small businesses' credit needs.

Small Business Majority is a national small business organization that empowers America's diverse entrepreneurs to build a thriving and inclusive economy. We engage our network of more than 80,000 small businesses and 1,000 business and community organizations to advocate for public policy solutions and deliver resources to entrepreneurs that promote equitable small business growth.

The State Small Business Credit Initiative (SSBCI) was a critical resource to strengthen state programs that support financing for small businesses across the country, and we strongly support reinstating the program to get capital into the hands of vulnerable small businesses. With 47 states participating, SSBCI helped [direct funds](#) to 152 small business programs, and 80% of those funds supported the smallest of businesses with 10 or fewer employees. By 2015, 42% of the SSBCI funds were for small businesses located in low- and moderate income communities.

SSBCI was successful in part because it did not take a one-size-fits-all approach, which is critical to addressing the needs of our nation's diverse small businesses. We've seen the challenges that can arise from a rigid funding structure like the Paycheck Protection Program (PPP) that has struggled to deliver funding to small businesses owned by people of color and vulnerable small businesses. As a result of a more flexible approach, the SSBCI program helped drive capital to underserved markets and benefitted early-stage, rural, tribal, minority-owned, and women-owned businesses.

Small businesses, particularly women- and minority-owned businesses that have been left behind during the pandemic, are still experiencing significant declines in revenue. Indeed, our [most recent research](#) found more than half of small businesses report their revenues are down compared to the same time last year and 1 in 5 Black and Latino owned businesses are facing closure. These small business owners are looking to Congress to create innovative pathways towards accessing capital. SSBCI has a proven track record of success that all small businesses stand to benefit from and there's no time to waste in its reauthorization.

Thank you for the opportunity to share comments on the importance of reauthorizing this program to support small businesses during this critical time.

Sincerely,

John Arensmeyer
Founder and CEO



**U.S. House Committee on Financial Services
Public/Virtual Hearing
More than a Shot in the Arm: The Need for Additional COVID-19 Stimulus**

**February 4, 2021 10:00 AM ET
Chairwoman Maxine Waters (CA-43), Presiding**

**Written Testimony on behalf of:
Asian/Pacific Islander American Chamber of Commerce and Entrepreneurship
(National ACE)
United States Hispanic Chamber of Commerce (USHCC)
U.S. Black Chambers, Inc. (USBC)**



February 3, 2021

The Honorable Maxine Waters
Chairwoman
Committee on Financial Services
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairwoman Waters and Ranking Member McHenry:

On behalf of the minority business community in the United States, we are thankful for the leadership and commitment your committee has demonstrated in helping to advocate for small minority-owned businesses during our current economic crisis.

Collectively, the undersigned organizations represent the interests of more than 9.3 million minority-owned business enterprises (MBEs) and a network of more than 450 minority chambers of commerce and business associations across the United States. As the leading national voices for minority businesses in the United States, we want to your committee is aware of the incredible risk these businesses are facing and how their economic security will be threatened by the COVID-19 economic crisis without the proper investment in technical assistance provided by Minority Business Development Centers (MBDCs) and other local partners. This model saw tremendous success in delivering to our minority-owned businesses the technical assistance they needed to access COVID-19 economic relief such as the Paycheck Protection Program (PPP), the Economic Injury Disaster Loan (EIDL) program, among key programs. We stand at an economic precipice in American history, to help businesses survive and recover, as we continue to fight this unprecedented global pandemic.

The Minority Business Development Agency (MBDA) is the only federal agency solely dedicated to the development and growth of our nation's minority business enterprises. We urge the increase of funding to be made available to the MBDA through any future federal stimulus or economic relief packages. The MBDA is an institution that many of our minority-owned businesses and chambers of commerce throughout the country turn to for resources and guidance. This funding and support are needed to help us reach more minority-owned businesses during this pandemic, provide technical assistance, and assist more businesses to keep their doors open. This funding is critical to saving America's minority-owned businesses who are struggling more than any other groups. Our continued collaboration with the MBDA will lead the economic recovery and job growth for our nation as a result of our technical assistance, intervention, and support.

As a result of CARES Act funding from the MBDA, many organizations were able to implement nationwide technical assistance programs to help MBEs during this crisis. Under the MBDA's leadership, these national business organizations are providing the most accurate and current information about federal resources available to minority business enterprises, partnering with our national networks of local, state, and regional minority chambers of commerce throughout the country. These programs include how to access capital and loan assistance for stopgap funding such as the PPP, EIDL, and other loan and grant opportunities; offering in-language resources and tools; and education and training to support small business resiliency. The programs enlist subject-matter experts to support training, education, and outreach to ensure our programs are impacting the largest possible number of MBEs in low minority income (LMI) communities across our country.

The CARES Act grant awards have had a direct impact in saving jobs within the minority business community. In 2020, the U.S. Hispanic Chamber of Commerce (USHCC) provided support to more than 6,000 Hispanic and minority-owned businesses through its seven technical assistance centers at chambers across the country. Furthermore, the USHCC has hosted over 100 webinars and virtual trainings to help business owners recover and scale during the pandemic. The U.S. Black Chambers, Inc. (USBC) has served 2,800 businesses through technical assistance, counsel, and informational resources. The USBC also implemented new access to capital programs to ensure that its members could stay afloat, which resulted in over 200 businesses receiving grants and loans totaling \$1,100,000. To date, the National Asian/Pacific Islander American Chamber of Commerce and Entrepreneurship (National ACE) has helped over 300 minority businesses apply for federal assistance through PPP and EIDL. National ACE has also conducted 41 webinars on financial assistance and 68 virtual events on business recovery and resiliency, providing support to 9,650 businesses and individuals.

Even before COVID-19, minority-owned businesses have all faced challenges that underscore their economic fragility. A recent assessment by the Federal Reserve Bank found that minority-owned businesses were more likely to show signs of limited financial health – indicated by factors such as profitability, credit scores, and a propensity to use earnings as a funding source for their business. In a recent analysis of data provided by the MBDA, 11% of small minority-owned businesses had employees compared with 22% of non-minority-owned businesses.

Prior to the COVID-19 economic crisis, MBEs had been succeeding in spite of the many historical barriers minority entrepreneurs face as they work to start and grow a business. MBEs are two to three times more likely to be denied business loans, have one-third of the annual gross revenues when compared to non-minority owned companies, and are half as likely to have at least one employee on payroll. When we fail to invest in minority-owned firms, our economy suffers.

Now, in the midst of this global pandemic, the historical problems facing MBEs have been exacerbated. A large concentration of minority-owned businesses are particularly susceptible to disruption and vulnerable to disproportionate challenges. Minority entrepreneurs are the

largest population of business owners in service industries – including restaurants, laundry services, salons, and other main street retail. A recent study by McKinsey shows that 51% of small business jobs performed by minorities could be vulnerable in the near future, compared to 47% of non-minorities. McKinsey's recent Business Pulse Survey also indicate that 58% of these minority businesses are extremely concerned about the financial viability of their respective enterprise.

Overall, there has been very little data available about the effect this crisis is having on MBEs. To get a better understanding, the National Asian/Pacific Islander American Chamber of Commerce and Entrepreneurship (National ACE), in partnership with the U.S. Black Chambers, Inc. (USBC) and the United States Hispanic Chamber of Commerce (USHCC), conducted the largest survey of its kind, with Reimagine Main Street. This survey is on the pandemic's impact on minority businesses and was conducted online from September 28-November 30, 2020. A total of 8,328 business owners responded, including 893 Asian American and Pacific Islander (AAPI), 2,208 Black, 879 Hispanic, and 179 Native American business owners.

The results of our survey, attached to this letter, paint a sobering picture: 10% expect to close permanently in the next six months, and 45% expect to lay off at least one employee. Thirty-three percent of Black-owned, 26% of Native American-owned, and 21% of Hispanic-owned businesses report having less than a month of cash to cover operating expenses. Of the business owners expecting to lay off at least one employee, AAPIs were the highest at 49%. Since the survey was fielded, COVID-19 cases have surged, averaging more than 1.3 million per week and over 3,000 deaths per day in our country. Furthermore, our minority communities have been the most disproportionately affected by this virus from both a healthcare and economic perspective.

Because of CARES Act grant funding from the MBDA, we now provide consulting, training, and assistance to our partner organizations and minority businesses alike. We are leveraging our relationships with banking and financial institutions to provide training and education around available financing options. We are facilitating trainings; providing technical assistance; researching traditional and non-traditional financing options and resources on a national and local level; leveraging existing partnerships and developing new partnerships with federal agencies and other funders such as local governments, corporations, and nonprofit foundations to support these training and financial assistance efforts.

We are helping countless MBEs re-enter the economy by providing the training and tools needed to restart their business safely and strategically. The trainings and resources focus on providing education to safeguard workers, customers, and workplaces to prevent the transmission of COVID-19 and other communicable diseases; updating policies and procedures, including telework and providing remote customer service; the mitigation of cyber threats in a remote customer services or telework practices; and updating personal protective equipment (PPE). We connect MBEs to investment and procurement opportunities to help them pivot, grow, and move their business to a digital, more sustainable model.

We believe that additional technical assistance for MBEs is required and we applaud the committee for its work in this regard.

If you have any questions or require additional information, please do not hesitate to contact us at any time. Thank you in advance for your consideration in this matter, we look forward to future collaboration on these important policy priorities as you continue to design the economic future of our country through strategic bipartisan legislative action.

Respectfully,



Chiling Tong
President & CEO
National ACE



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



Ramiro A. Cavazos
President & CEO
U.S. Hispanic Chamber of Commerce

CC: The Honorable Nancy Pelosi, Speaker, United States House of Representatives
The Honorable Kevin McCarthy, Minority Leader, United States House of Representatives
The Honorable Charles E. Schumer, Majority Leader, United States Senate
The Honorable Mitch McConnell, Minority Leader, United States Senate
The Honorable Ben Cardin, Senate Committee on Small Business and Entrepreneurship
The Honorable Marco Rubio, Senate Committee on Small Business and Entrepreneurship
Members of the Congressional Hispanic Caucus
Members of the Congressional Black Caucus
Members of the Congressional Asian Pacific American Caucus



Testimony Addendum: National ACE MBDA CARES Act, Technical Assistance Grant Program, Success and Data to Date

February 3, 2021

The National Asian/Pacific Islander American Chamber of Commerce and Entrepreneurship (National ACE) serves as a strong advocate of Asian American and Pacific Islander (AAPI) business interests and effects positive change on all issues that enhance and advance the goals and aspirations of AAPI business owners and entrepreneurs. We provide a unified voice for the business interests of AAPIs with a network of over 65 local chambers and partners throughout the United States.

We represent over 2.2 million AAPI owned businesses who employ over 3.5 million individuals. In the middle of last year, National ACE received a CARES Act grant from the U.S. Department of Commerce Minority Business Development Agency (MBDA) to provide education, training, and advising to minority business enterprises (MBEs) through a technical assistance program.

With this program, we have developed a virtual small business recovery resource center at www.ACESmallBusiness.org where individuals can view past programming, learn about available federal funding, and connect to our consulting team for complimentary one-on-one consulting to scale their business, apply for PPP, pivot their business plan, and more.

With the CARES Act grant funding from the MBDA, we created programming and consulting to reach over 9,000 small businesses to remain resilient and get access to capital during the pandemic. Our ACE NextGen program – the millennial entrepreneur arm of our organization – created a series of cohorts, mentorship, and educational programming to help AAPI millennial business owners apply for PPP, learn from similar industries, and create a toolkit of best practices during the pandemic to keep their businesses operating safely. 400 AAPI entrepreneurs aged 22-48 participated in the program, many of whom have shared their success stories of jobs created, PPP loans received, and pivoting their businesses.

We have conducted over 100 virtual events for small businesses and nonprofits to help minority and AAPI businesses navigate Covid-19 and the changing economy. As of today, we have helped over 500 AAPI-business owners apply for federal resources through virtual programming and one-on-one application assistance. Topics have included applying for EIDL or PPP loans, PPP forgiveness, alternate funding sources available MBEs, hazards and prevention of Covid-19 in the workplace, management and transition to telework, identification and mitigation of cyber threats, mitigating the effects of redacted travel or outside activities, and more.

Lastly, National ACE conducted a national survey fielded from September 28-November 30, 2020. 893 AAPI business owners responded and the findings were dire: 53% of AAPI businesses report increased debt to keep their businesses operating; 61% of AAPIs missed out on critical aid because they did not believe they were eligible; and 49% of AAPI business owners report having to lay off at least one employee. Additionally, the Bureau of Labor Statistics' December 2020 report showed that 44% of AAPI women have been unemployed for more than six months – the highest rate of unemployment among all demographics.

From this data, we know there is still much work to be completed. National ACE will continue to work to prioritize our most vulnerable populations in hopes of providing access to an equitable recovery for all minority business enterprises.



**Testimony Addendum: USHCC MBDA CARES Act Technical Assistance Grant,
Program Success and Data to Date**

February 3, 2021

As the voice of our nation's **4.7 million Hispanic-owned businesses** that, combined, contribute **over \$800 billion to the American economy** every year, the United States Hispanic Chamber of Commerce (USHCC) in 2020 received a federal grant from the Minority Business Development Agency (MBDA) to establish eight national COVID-19 Technical Assistance Centers to design and execute programs to support the small, Hispanic, and minority business community through the economic hardships caused by the COVID-19 global pandemic. Since 1979, the USHCC has built an ecosystem of over **260 local chambers and business associations** throughout the United States, and together we advocate for and work with entrepreneurs to build sustainable, profitable Hispanic businesses, and strengthen our place in global markets to ensure our economic vitality.

The USHCC CARES Act Grant Program provides bilingual content that educates, informs, and advises the U.S. Hispanic community about support, news, policy, services, resources, access to capital, and other information critical to build and sustain awareness about COVID-19 relief for Latino individuals, families, and their respective businesses. Through this MBDA Grant funding we have been able to accomplish the following:

- The USHCC through the MBDA CARES Act Grant **established eight COVID-19 Technical Assistance Centers (TACs)** across our country in major cities with significant Hispanic and minority populations to provide small minority-owned businesses with free solutions to increase productivity, information on access to funding and grants, webinars and trainings featuring subject matter experts, and comprehensive resources and guidance in English and Spanish, to enable business owners to adapt their models, execution, and demand-generation processes to the new normal, and thrive.
- The USHCC through the MBDA CARES Act Grant has served more than **10,000 small minority-owned businesses** as of February 1, 2021 and we have identified more than 100 success stories among those businesses served in the form of loans approved, businesses reopened, employees re-hired, business transformation to digitization, etc.
- The USHCC through the MBDA CARES Act Grant has **hosted more than 200 Bilingual webinars and trainings, with more than 15,000 attendees**, these have been offered to small minority-owned businesses at no cost to them. **More than 150 business and operational topics** have been covered they have included; financial literacy, virtual work tools, utilizing free online tools to grow business branding, customer engagement, e-commerce and business digitization, SBA's PPP and EIDL application technical assistance, budgeting during an economic crisis, business solutions to retain employees, human resources, legal, and tax compliance, reopening safely to maintain CDC guidelines, the Main Street Lending Program from the Federal Reserve Bank, international business opportunities, strengthening procurement capability statements to access other contracting portfolios, government procurement opportunities, and other relevant topics that have evolved due to the economic hardships caused by the COVID-19 pandemic.
- The USHCC through the MBDA CARES Act Grant has **provided Personal Protective Equipment (PPE) and other sanitation supplies to more than 2,000 businesses** and a

new round of PPE supply drives will take place in the upcoming months to distribute more supplies.

- The USHCC through the MBDA CARES Act Grant created a social media resource and mental health campaign to promote these programs on our social media platforms through all eight of our chamber technical assistance centers. These campaigns are activated and have reached **more than 25,000 viewers with an estimated 400,000 impressions**.
- The USHCC through the MBDA CARES Act Grant has developed a Bilingual website www.ushcccares.com which launched at the end of 2020 where people can access resources and contact the TACs closest to them. To date, **more than 2,500 people have visited this site** to gain necessary resources, guidance, and technical assistance. The TACs work with small minority-owned businesses to review the different resource options available to their business, these include: access to capital, loans, alternative funding, health and safety guidelines from the CDC, trainings, credit and tax guidance, operational best practices, tools from subject matter experts on digital transformation, managing remote teams, business opportunities, procurement, productivity, and much more.



Testimony Addendum: USBC MBDA CARES Act Technical Assistance Grant

February 3, 2021

The U.S. Black Chambers, Inc. (USBC) provides 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. Our five pillars of service include; advocacy, access to capital, contracting, entrepreneur training, and chamber development.

The USBC's primary advocacy asks related to the Minority Business Development Agency (MBDA) are as follow:

- Formally codify the MBDA to increase the amount of Black-owned businesses;
- Create an MBDA website to ensure that black-owned businesses can access and navigate federal resources;
- Establish an inter-agency council within the MBDA at the U.S. Department of Commerce to act as an oversight and public reporting mechanism. The inter-agency will also ensure that Black-owned firms are receiving the prioritization necessary in the months and years ahead;
- Increase appropriations levels for the MBDA to seed and scale Black and minority-owned firms;
- Authorize a study within the MBDA to track and report forthcoming revenue opportunities and solutions for Black businesses following the COVID-19 pandemic;
- Establish additional Minority Business Development Centers (MBDCs) at additional Historically Black Colleges and Universities and Low Minority Income (LMI) communities;
- Establish a fund within the MBDA that will specifically serve our nation's fastest group of entrepreneurs, Black women; and
- Ensure that the MBDA prioritizes Black businesses within Science, Technology, Engineering, the Arts, and Mathematics (STEAM) industries.

»» REIMAGINE MAIN STREET 

Business Owners of Color and COVID-19

December 10, 2020

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PUBLIC PRIVATE
STRATEGIES



»»

REIMAGINE MAIN STREET

Small businesses and their workers must rebound from the COVID-19 crisis so that communities thrive and the benefits ripple throughout the economy. We are a multi-stakeholder, cross-sector initiative focused on advancing and uplifting innovative solutions to ensure that Main Street is at the center of our recovery. Reimagine Main Street is a project of Public Private Strategies.

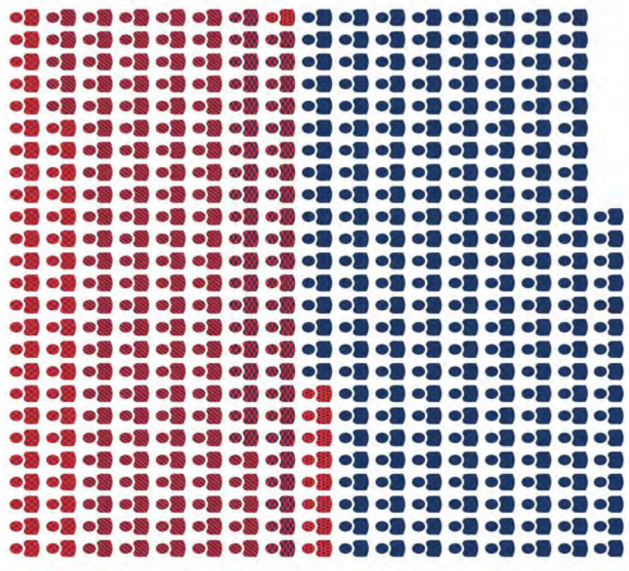
— Context for this Survey

- Small business and communities of color hard hit by pandemic
- Limited data available to reflect absolute and relative experience of Asian-, Black-, Hispanic- and Native-owned small businesses
- Large-scale national survey of small business owners fielded from September 28 through November 30, 2020. Large samples of Asian-, Black-, Hispanic-, Native- and White-owned businesses provide timely insight into impact and pain points.

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Large and Diverse Sample

8,328
Respondents

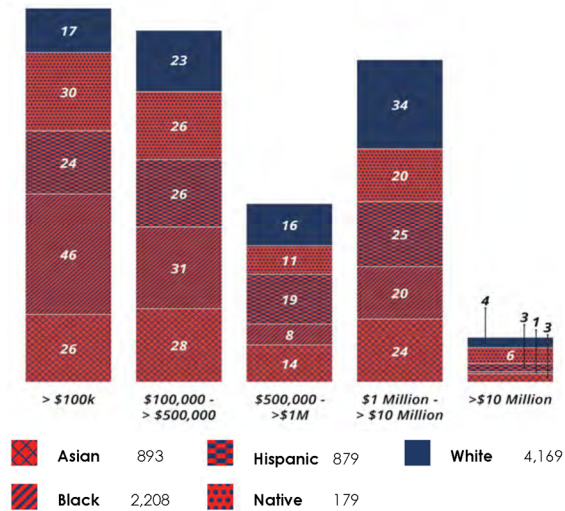


	Asian	893
	Black	2,208
	Hispanic	879
	Native	179
	White	4,169

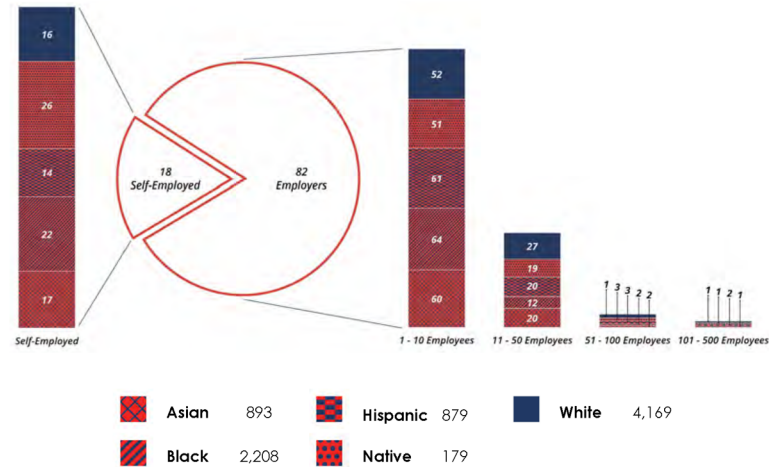
= 20 Small Business Owners

Robust Mix of Micro and Small Businesses

2019 Revenue
% of respondents



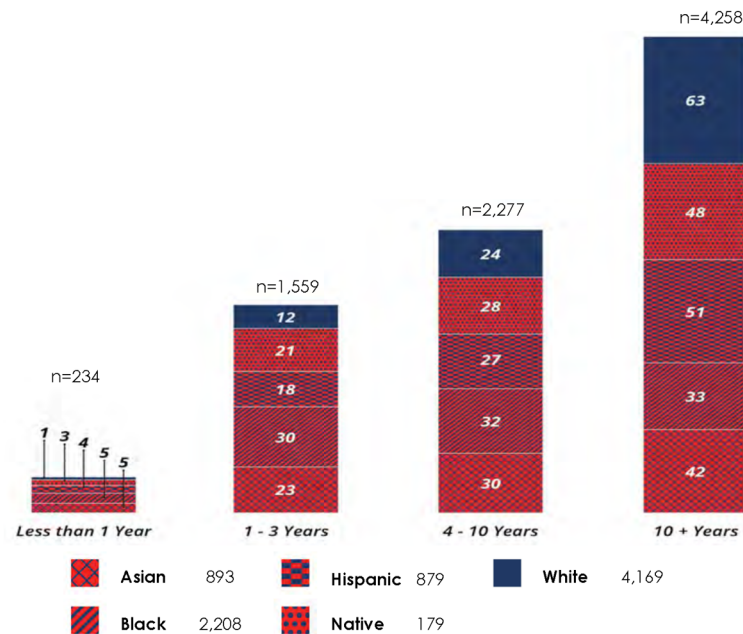
Distribution by Number of Employees
% of respondents



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Skews Toward Established Businesses

Time in Business
% of respondents



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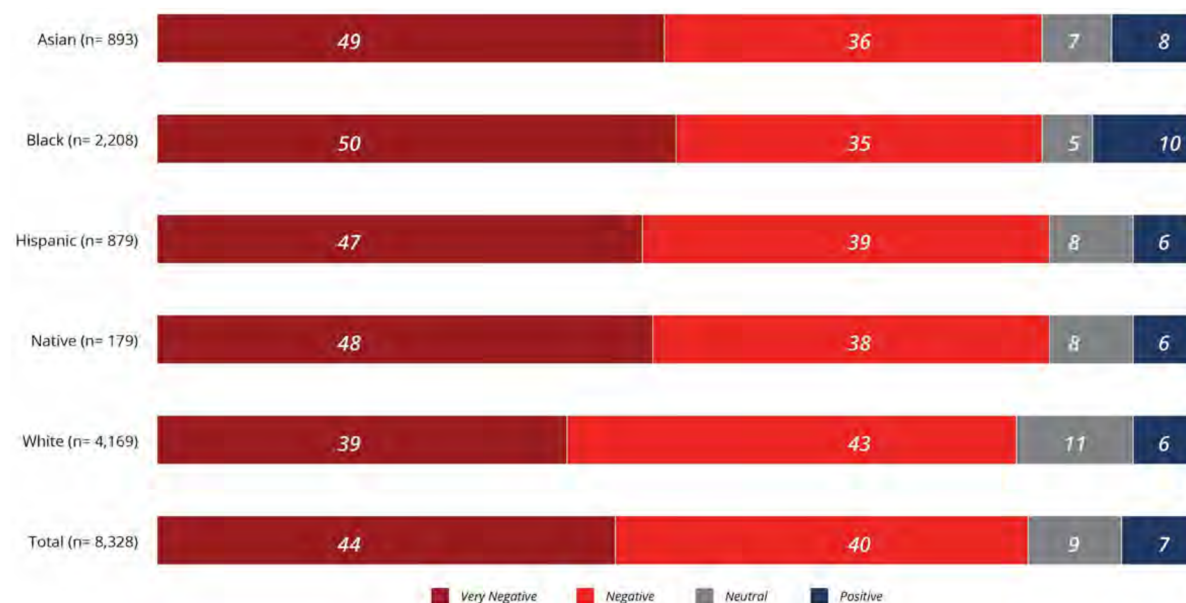
Takeaways

- **Small businesses have been hard hit to date:** 8 in 10 small business owners surveyed reported negative effects from the pandemic, more than half of respondents have experienced revenue declines of more than 25%, and 37% are not operating at full capacity, with an average of almost 10% closed.
- **It's going to get worse for business owners and their employees:** ~10% of small business respondents expect to close permanently in next 6 months. 44% of employer businesses that responded have already shed jobs and 45% expect more job losses to come.
- **Small businesses need cash:** As expected, most respondents want relief in the form of grants or another PPP loan. More than one-third of small businesses in the survey expect to borrow to address COVID-induced cash flow constraints, making it imperative to ensure liquidity in credit markets, especially for relatively small-dollar loans.

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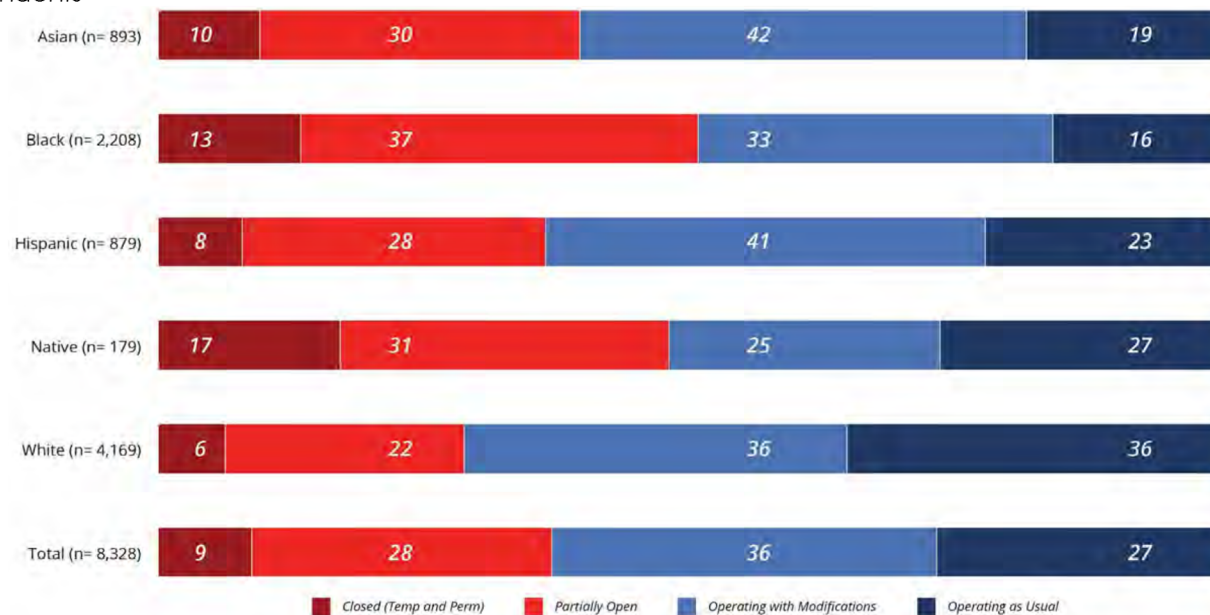
Small Businesses Hard Hit by Pandemic

Effect of COVID-19 Pandemic
% of respondents



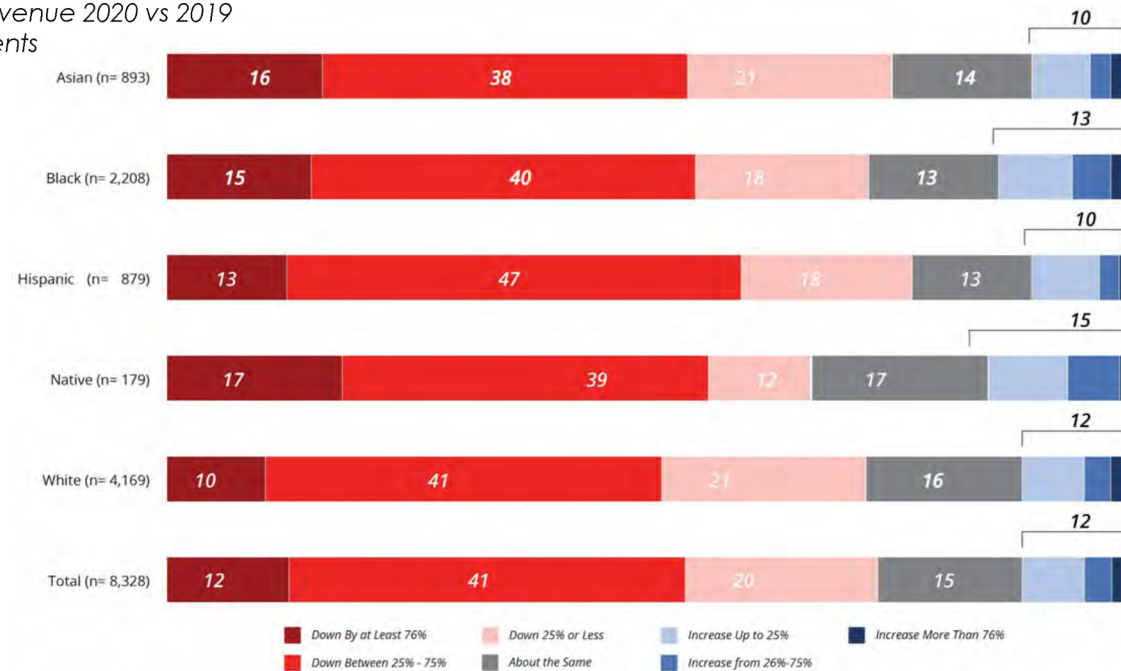
It's Not Business as Usual for the Majority of Respondents

Status of Operations
% of respondents

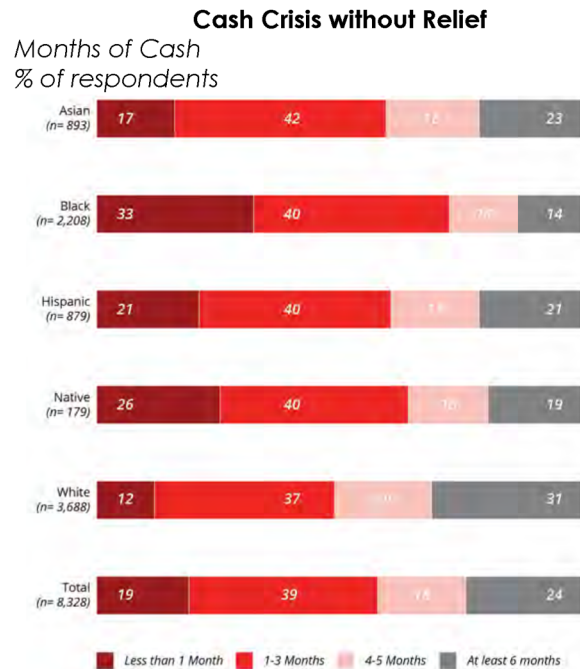


Revenue Down by > 25% for Most Respondents

Change in Revenue 2020 vs 2019
% of respondents

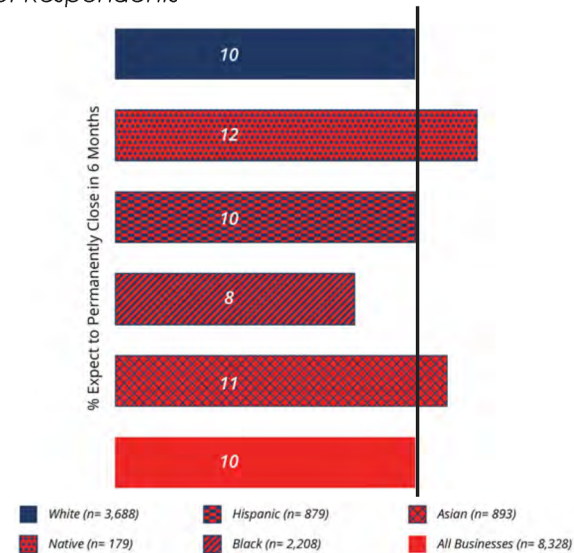


Expect More Small Businesses to Shut Down



~10% of Small Business Respondents Expect to Close Permanently in Next 6 Months

% of Respondents

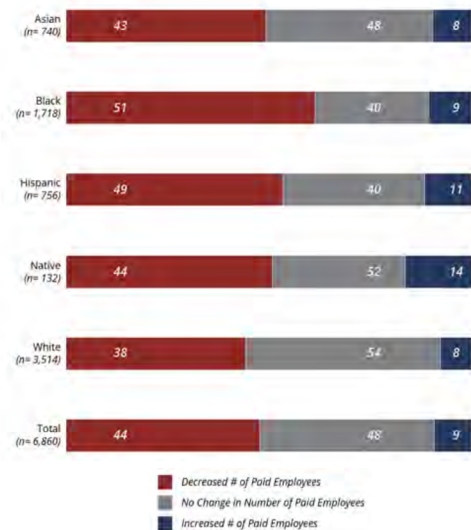


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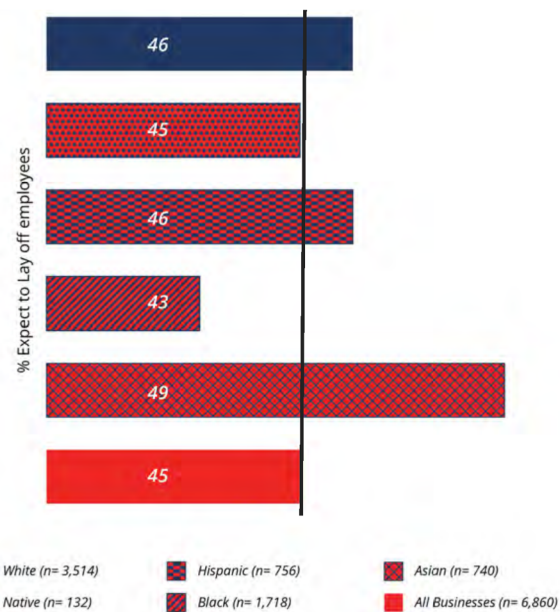
More Job Shedding Likely

~4 in 10 Small Employers Surveyed Have Already Shed Jobs

Change in Number of Paid Employees
% of Employer Firms

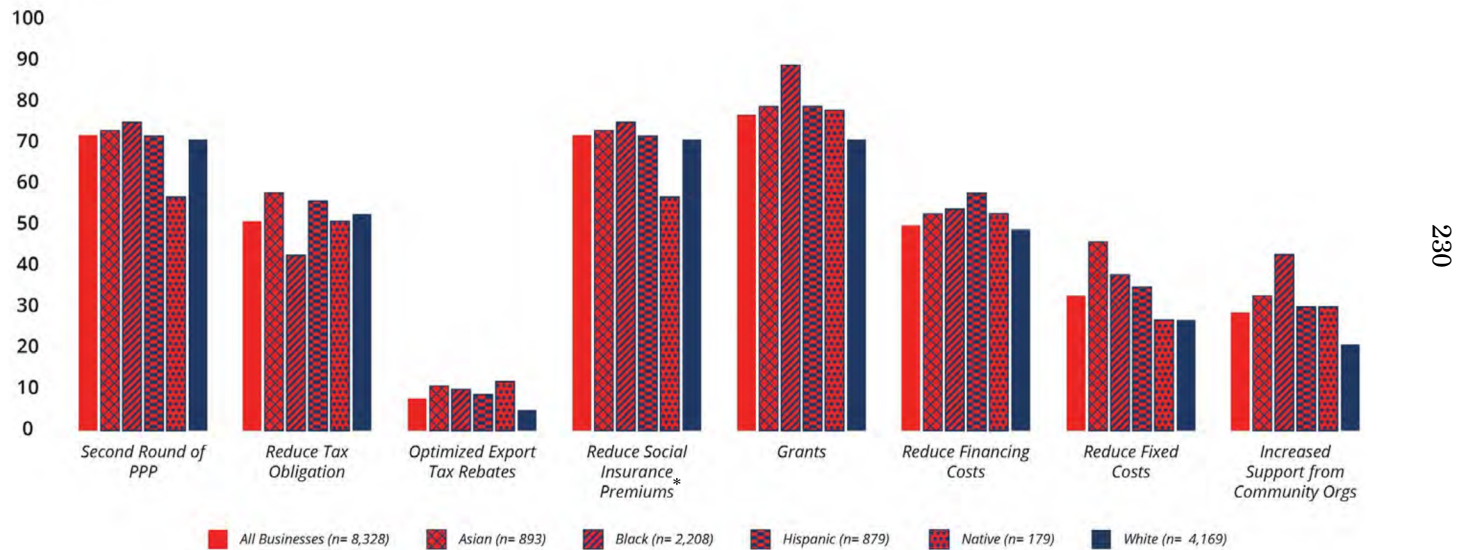


Nearly Half of Respondents Expect More Layoffs



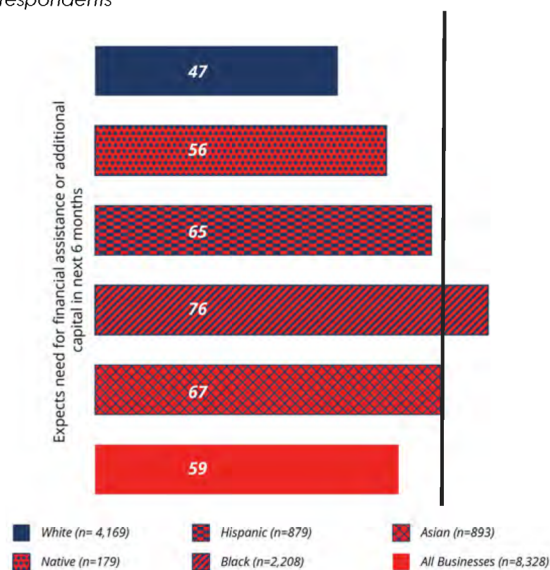
Business Owners Want Relief, With Varying Priorities

Preferences Among Relief Options Presented
% of respondents

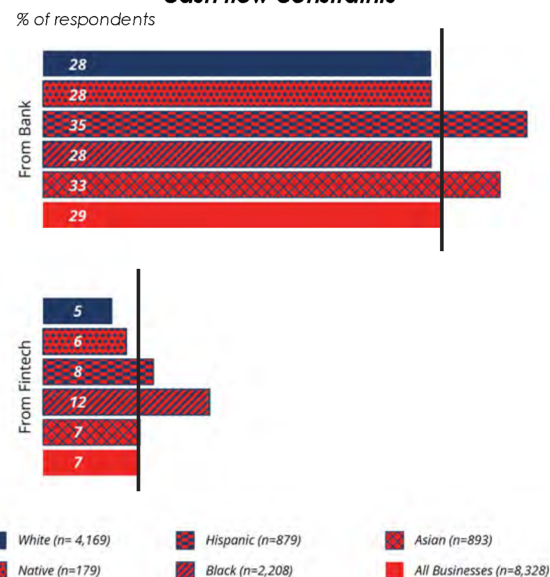


Imperative to Maintain Liquidity in Credit Markets

More than half of respondents say they will need financial assistance or additional capital in next 6 months
% of respondents



More than one-third of small businesses expects to borrow to address COVID-induced cash flow constraints
% of respondents

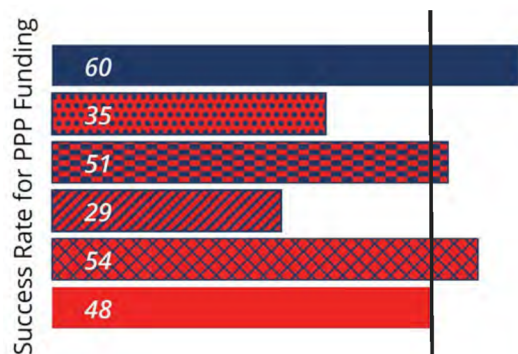


Federal Support to Date Not Distributed Equally

Success Rate
% Applied x % Received Relief

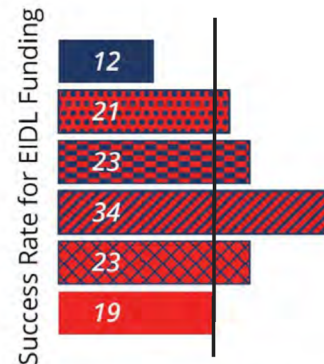
Paycheck Protection Program

- \$484 Billion
- Distributed via private lenders



Economic Injury Disaster Loan

- \$20 Billion
- Distributed by the SBA

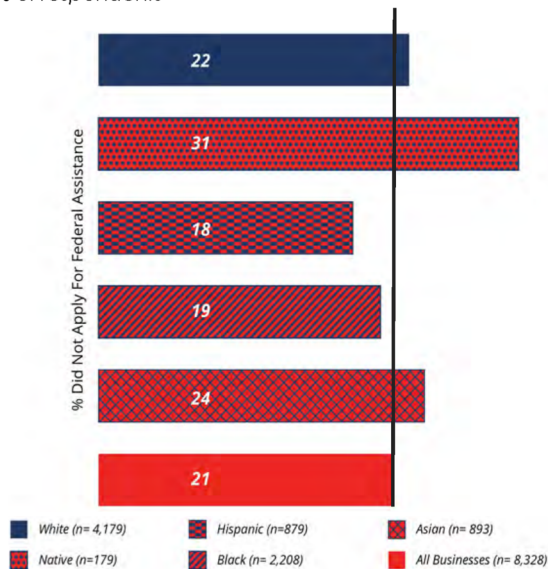


■ White (n= 4,169) ■ Hispanic (n= 879) ■ Asian (n= 893)
 ■ Native (n= 179) ■ Black (n= 2,208) ■ All Businesses (n= 8,328)

Expectations & Needs for Federal Assistance Vary

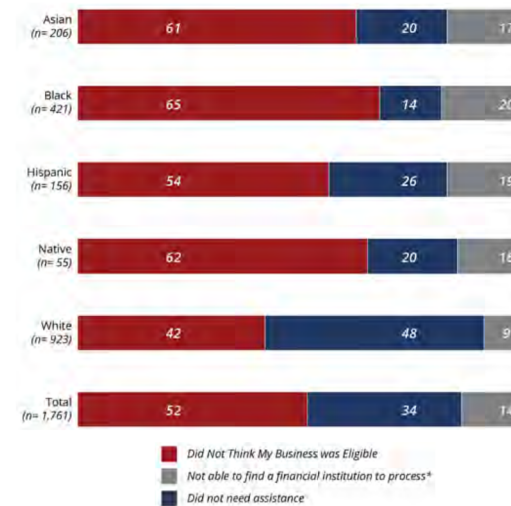
Roughly 1 in 5 Small Businesses Did Not Apply for Federal Assistance

% of respondents



Majority of Asian, Black, Hispanic and Native Owners Did Not Think They Were Eligible vs Almost Half of White Business Owners Who Did Not Need Assistance

% of respondents



■ What Do We Think Needs to Happen?

- Get the virus under control so that demand returns
- In the meantime, provide flexible and sufficient Federal relief for small businesses and support for credit markets to ensure capital available for Main Street recovery
- Improve data driven insights into segments of small businesses and their workers
- Mobilize effective support for small businesses, the people who work for them and the communities that they serve
- Support innovation of financial products and distribution channels to reach small businesses in communities of color at scale

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— Questions? Contact Us

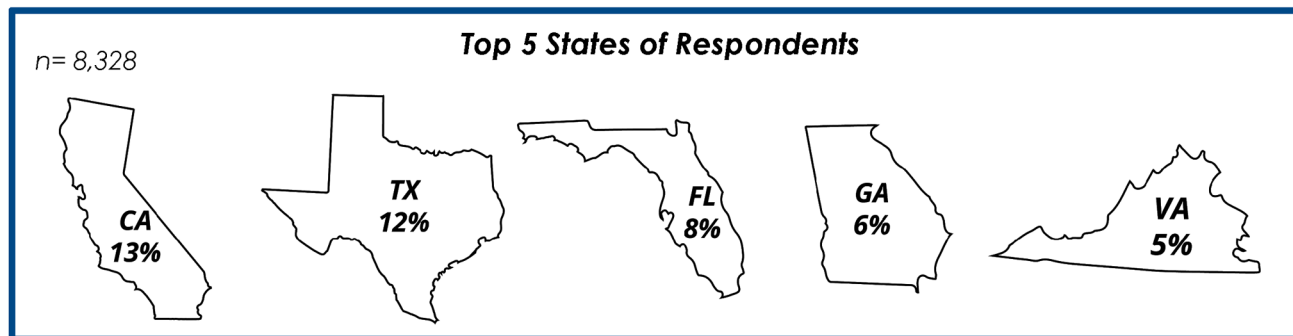
Chris Landrigan
chris@publicprivatestrategies.com

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■ Broad Geographic Coverage

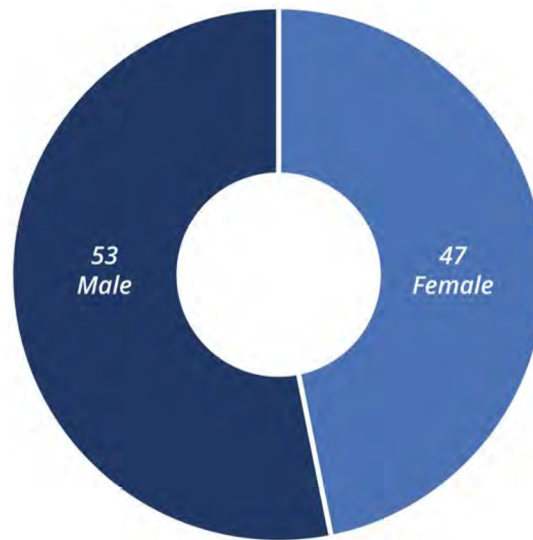
- Survey **respondents represent all 50 states** and three territories (Puerto Rico, Guam and the Northern Mariana Islands)
- **>1,000** respondents in **California, Texas**
- **>500** respondents in **Florida, Georgia**
- At least **300 respondents** in **Maryland, North Carolina, Illinois, Michigan, Pennsylvania and Ohio**



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Rough Parity Between Male and Female Respondents

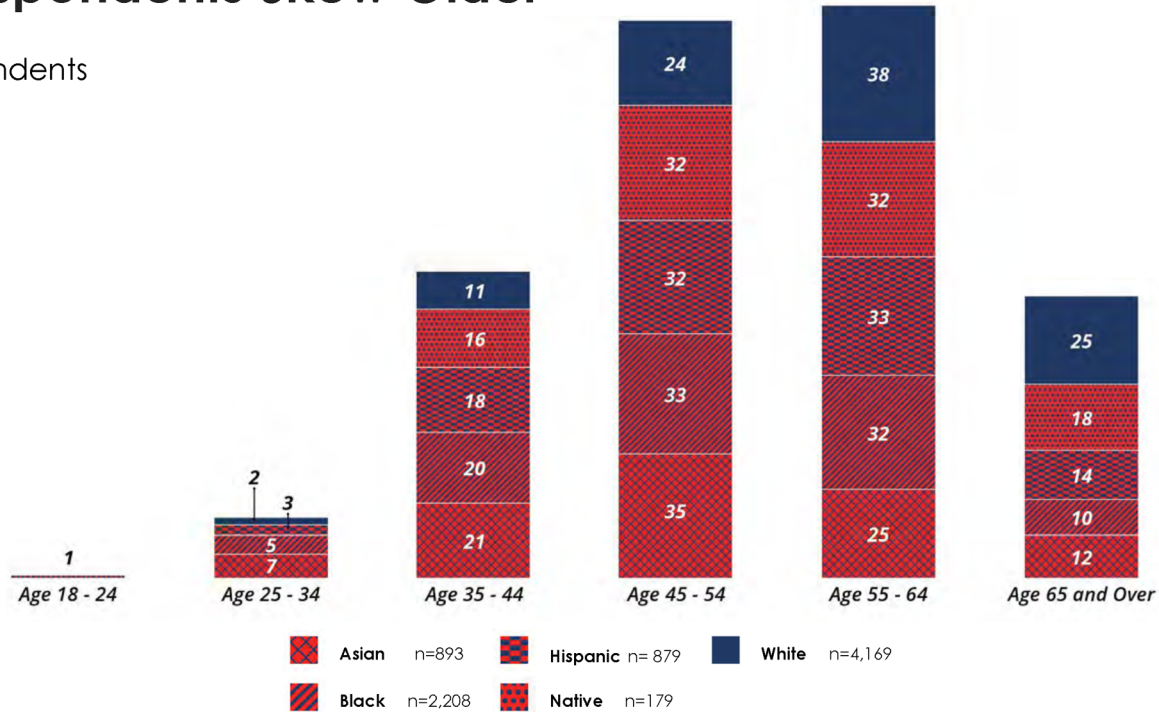
% of respondents
n=8,328



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Respondents Skew Older

% of Respondents
n=8,328

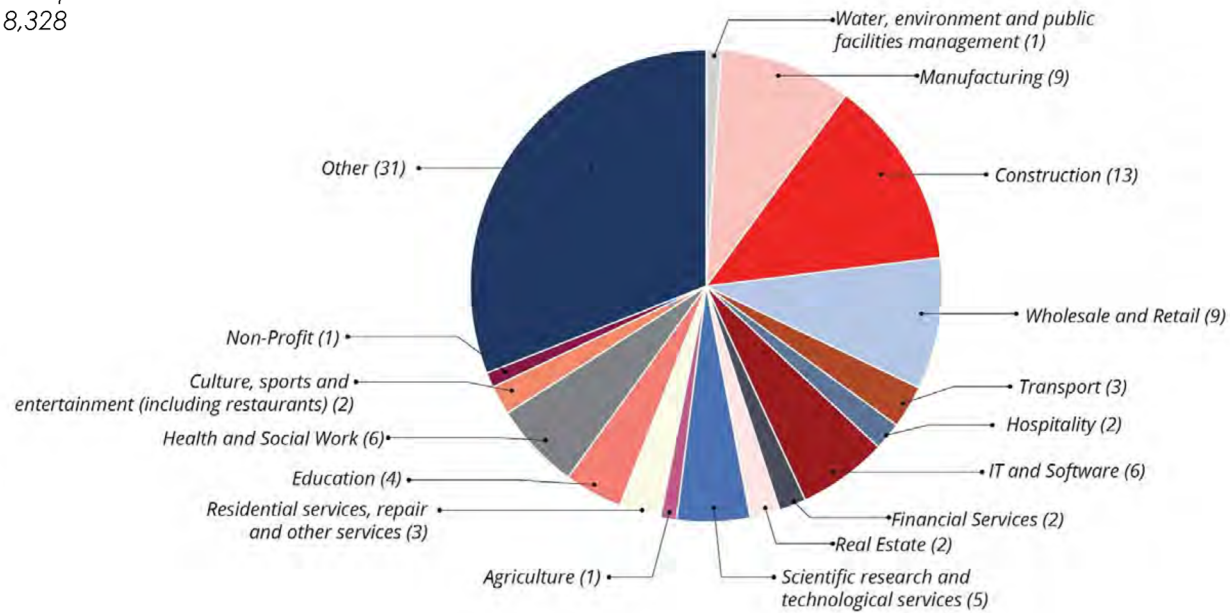


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Broad Range of Industries Represented in Sample

% of respondents
n= 8,328



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Top 5 Industries by Race/Ethnicity of the Respondent

	Asian	Black	Hispanic	Native	White	Total
○	IT & Tech Services (12%)	Construction (10%)	Construction (21%)	Construction (24%)	Construction (14%)	Construction (13%)
	Wholesale & Retail (10%)	Health and Social (9%)	Wholesale & Retail (7%)	Manufacturing - (10%)	Manufacturing (13%)	Wholesale & Retail (9%)
	Scientific research and technological services (9%)	Wholesale & Retail (8%)	Manufacturing (7%)	Wholesale & Retail (8%)	Wholesale & Retail (10%)	Manufacturing (9%)
	Construction (8%)	IT & Tech Services (8%)	IT & Tech Services (5%)	Health and Social (7%)	IT & Tech Services 4%	IT & Tech Services (6%)
	Manufacturing (7%)	Transport & Logistics (6%)	Health and Social 4%	IT & Tech Services (4%)	Health and Social (4%)	Health and Social (6%)

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