

**THE CORONAVIRUS CRISIS: NEXT STEPS FOR
REBUILDING MAIN STREET**

HEARING
BEFORE THE
**COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS**
UNITED STATES SENATE
ONE HUNDRED SEVENTEENTH CONGRESS
FIRST SESSION
ON
EXAMINING THE AFFECT OF CORONAVIRUS ON AMERICAN BUSINESS AND NEXT
STEPS FOR REBUILDING MAIN STREET

FEBRUARY 25, 2021

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C O N T E N T S

THURSDAY, FEBRUARY 25, 2021

	Page
Opening statement of Chairman Brown	1
Prepared statement	32
Opening statements, comments, or prepared statements of:	
Senator Toomey	3
WITNESSES	
Watchen Harris Bruce, President and CEO, Baltimore Community Lending, Inc.	5
Prepared statement	33
Responses to written questions of:	
Senator Warren	49
Joe DeLoss, Founder and CEO, Hot Chicken Takeover, Columbus, Ohio	7
Prepared statement	34
Responses to written questions of:	
Senator Cortez Masto	50
Jessica Milano, Board Member, Small Business Majority	8
Prepared statement	35
Responses to written questions of:	
Senator Brown	51
Senator Warren	52
Senator Sinema	55
Senator Warnock	58
Joel Griffith, Research Fellow, The Heritage Foundation	10
Prepared statement	39
Dani Ritchie, Owner/Stylist, Studio Alchemy, Harmony, Pennsylvania	11
Prepared statement	47

THE CORONAVIRUS CRISIS: NEXT STEPS FOR REBUILDING MAIN STREET

THURSDAY, FEBRUARY 25, 2021

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 9:31 a.m., remotely, via WebEx, Hon. Sherrod Brown, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN SHERROD BROWN

Chairman BROWN. This Committee will come to order. This hearing of the Senate Banking, Housing, and Urban Affairs Committee is in a virtual format. A few reminders as you begin. Once you start speaking there will be a slight delay before you are displayed on the screen. To minimize background noise, please click the mute button until it is your turn to speak or to ask questions.

You should all have one box on your screens labeled "Clock" that will show how much time is remaining. For witnesses, you will have 5 minutes for your opening statements. For all Senators, the 5-minute clock still applies to your questions. At 30 second remaining, for statements and questions, you will hear a bell ring to remind you that time is almost expired. It will ring again when your time has expired. If there is a technology issue we will move to the next witness or Senator until it is resolved.

To simplify the speaking order, as we do this remote, Senator Toomey and I have agreed to go by seniority for this hearing.

One of the most important things we can do in this Committee is to give a voice to all people who have not had enough of a voice in their Government. Last week, we began by hearing from Ohioans and witnesses from around the country who do not have corporate lobbyists but they understand their communities and who know the challenges regular people are facing right now. Today we will continue that work, hearing from small business owners and small lenders from Columbus, Ohio; Baltimore, Maryland; and from Pennsylvania.

Just like American workers, these are businesses that are often left behind or steamrolled by the largest corporations and the biggest banks and their allies in Washington. Wall Street too often excludes small and minority-owned businesses and only measures success by the stock market. The Dow does not tell us much about how a restaurant in Columbus or an early learning center in Baltimore is doing, and how their workers and their customers are doing.

These entrepreneurs are an important measure of the real state of our economy. Small businesses create jobs and generate economic growth in our communities in the heartland and Black and Brown communities, places that often do not get a lot of outside investment. The stakeholders in these businesses are not nameless, faceless shareholders. They are our neighbors. They are our family members. They are the people you see at school, at the grocery store, at church. We will not have a strong recovery unless we reach these businesses and the lenders and organizations that support them.

These businesses know how important it is to have local lenders and institutions that understand small business needs and serve their communities. It is the Community Development Financial Institutions, the CDFIs, and the Minority Depository Institutions, the MDIs, that help them fight to save their businesses when the big banks turn them away or were never an option in the first place.

People in Ohio and across the country remember how, after the last economic crisis in 2008–09, big corporations recovered while large swaths of the country, including in my State, were left behind. Many of these same communities have watched for decades as factories closed and investment dried up and storefronts were boarded over. They are often places that have never had the investment they should, because of discrimination, because of redlining, because of decades of policy that funneled resources and jobs away from entire neighborhoods and towns and regions of our country.

In all these places so many Americans know what it is like to wake up one day and realize the only jobs to be had were at big-box chains, for rock-bottom wages, with no health care, no paid sick leave, no power over your schedule. We cannot allow that to be our future. We need to invest everywhere in the places that have seen investment dry up, in places that were overlooked, that were discriminated against, that were outright preyed upon to begin with. If we allow another Wall-Street-first recovery, where the big guys get taken care of while small businesses fight over the scraps, we will end up with more hollowed-out towns and neighborhoods, more workers trapped in a broken corporate business model.

President Biden understands that. His rescue plan will help these businesses and the communities they support around the country. The number one thing we must do to support all small businesses is to get every American vaccinated as quickly as possible. That is how we protect workers. That is how we ensure customers feel safe, going shopping, going to restaurants, going to the movies or the concerts and the barber shops, and other places again. Our rescue plan will fund the massive mobilization we need to make that happen. It will give more financial support to these small and minority-owned businesses and the community lenders that support them.

In addition to continuing to fund and improve the PPP and EIDL programs, we are going to restart a successful Treasury program that will give more small businesses access to capital. We will make sure mission-based lenders, CDFIs and MDIs, have what they need to serve their communities.

Our work does not end, though, with this emergency bill. We need to invest in these entrepreneurs represented today and their

communities for the long term. We need to rethink our economy and how we value the people and the places it is made up of. When we put communities, not big corporations, at the center of our policy we will get more businesses that actually value their workers and measure success the same way families do, not in quarterly earnings reports. We will get more entrepreneurs building something for the long time, something with roots in our communities.

People are proud of where they come from. They want to see the Main Streets they love thriving again. Our witnesses today know that. They know the vibrancy, the dynamism, the diversity of working-class towns and neighborhoods all over this country. We need to get to work to invest in them and ensure that those places, America's Main Streets, not Wall Street, are the center of our recovery and are the building blocks of a better economy.

Senator Toomey.

OPENING STATEMENT OF SENATOR PATRICK J. TOOMEY

Senator TOOMEY. Thank you, Chairman Brown, and thanks to our witnesses for testifying today. You know, COVID has been an unprecedented crisis, and Congress' response has been unprecedented as well. Congress has passed five bills in response to the pandemic. They have provided almost \$4 trillion in relief. The most recent \$900 billion bill was signed into law less than 2 months ago. And all five of those bills received overwhelming bipartisan support, designed to prevent the economy from spiraling into a crisis and to facilitate the economic recovery that we have needed.

And let's be clear—the economy is in recovery mode. The unemployment rate that was 15 percent in April is 6.3 percent in January. As of December, 18 States had unemployment rates below 5 percent, and we have seen strong economic growth these last two quarters, and the consensus forecast for the year we are in now is likely to exceed 5 percent, real economic growth.

Unfortunately, despite all this, President Biden and our Democratic colleagues are pushing a \$1.9 trillion bill that is completely detached from any kind of economic reality. The bill is not designed to find common ground. In fact, the procedure that is being used to pass it virtually precludes common ground. And unlike previous bills, it is not an economic relief bill, as its size and its content bears no relation to the economic circumstances we are in.

For example, the Democratic plan for small business aid would spend billions, tens of billions, when billions have already been spent, and are still available. The Democratic plan includes spending another \$15 billion for Economic Injury Disaster Loans, \$10 billion to restart the Obama-era State Small Business Credit Initiative, known as SSBCI, another \$7.5 billion for the Paycheck Protection Program, known as PPP. But Congress has already provided over \$1 trillion in relief for small business, and just 2 months ago Congress gave \$248 billion for the hardest hit businesses to apply for a second round of PPP loans, another \$20 billion for EIDL loans, \$12 billion for the Minority Depository Institutions and the Community Development Financial Institutions to invest in low- and moderate-income communities.

And the MDIs and the CDFIs will not even be able to push this money out the door. The \$12 billion that we already gave is 50

times the annual amount of the CDFI funds. And billions of these dollars are still available. As of earlier this week, more than \$140 billion in PPP loan money is available, untapped. As of yesterday, none of the \$20 billion for EIDL has been disbursed, and it is doubtful that much, if any, of the \$12 billion for MDIs and CDFIs has been put to you. And yet, they want still more money.

There is no need for the \$10 billion to restart a program, the SSBCI, that was tried and failed. That program was operational in the early 2010s and the results were very disappointing, as is often the case with Government programs. It was slow to launch, inefficient at deploying the capital, loans and investments often took months or years to reach small businesses, and we know that they will not be able to give money to small businesses quickly now. The program is also riddled with all kinds of problems. The audits by the Treasury's inspector general and the GAO point to a program that was wasteful, inefficient, poorly managed, and more fundamentally, the program is objectionable on its face.

Unlike PPP, this program is not about providing COVID relief, since it makes funding available for years after the expected duration of the pandemic. In fact, CBO estimates that only 8 percent of the \$10 billion meant for the SSBCI will be spent in 2021. And unlike PPP, it is not about keeping employees on payroll, since it contains no such requirement. The program is just a means for the Government to allocated credit.

In addition to misusing taxpayer resources for things like SSBCI, the Democratic plan is rife with provisions that will actually harm small businesses and workers, their employees, and the recovery that is underway. For example, the \$15-an-hour minimum wage. That is an increase that is going to not only harm small businesses but prevent low-skilled workers from getting their first job. CBO projects a loss of 1.4 million jobs, and maybe as high as 3.7 million.

Today we have two witnesses who tell us more about the damage that they believe will occur if we have a \$15-an-hour minimum wage. I am looking forward to hearing from Joel Griffith from The Heritage Foundation and Dani Ritchie from my home State of Pennsylvania on this matter.

Another important point to make here is that our Democratic colleagues, this bill is not targeted to provide the temporary aid that has resulted from the pandemic. According to CBO's estimates, only a fraction of the \$1.9 trillion will be spent this year. Among the spending items under the Banking Committee's jurisdiction, CBO estimates that in 2021, only about half of the \$19 billion for rental assistance will be spent. Only 8 percent, as I said, of the \$10 billion for SSBCI will be spent in 2021. Only 5 percent of the \$5 billion for emergency housing vouchers will be spent in 2021. And this one is just incredible—they estimate that 0 percent of the \$5 billion for homeless assistance will be spent in 2021. Do they think that this pandemic goes on for decades? I mean, this makes no sense.

And then, of course, there are the provisions that have absolutely nothing to do with COVID, under any circumstances, like \$86 billion to bail out multi-employer pensions, \$100 million earmark for a subway in Silicon Valley, \$135 million for the National Endowment for the Arts, \$50 million for environmental justice grants,

whatever that is. But small businesses and workers do not need a \$1.9 trillion bill that is wasteful, not at all targeted, and largely unrelated to COVID, and they certainly do not need to lose job opportunities by virtue of a \$15 minimum wage.

So rather than ramming through a partisan, bloated, and unnecessary spending bill, we ought to be focusing on lifting Government shutdown orders, reopening our schools, and the one thing I think we do agree on, distributing vaccines as quickly as we possibly can so that businesses can reopen, workers can go back to work, and people can go back to normal lives.

Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Toomey. I will now introduce today's witnesses. I will introduce them in the order in which they will testify.

Mrs. Watchen Harris Bruce is the President and CEO of Baltimore Community Lending. She has more than 30 years of experience in banking, finance, economic development, and affordable housing. Welcome, Mrs. Bruce.

Joe DeLoss is the Founder and CEO of Hot Chicken Takeover, a popular restaurant that started as a popup window in Old Town East neighborhood in Columbus. He has expanded to Westerville, Westlake, and in northeast Ohio he is going to expand in Strongsville, and it is a favorite eating place of both my daughter, Elizabeth, and a young man in my office by the name of Andy.

Jessica Milano is a board member of Small Business Majority and a senior advisor at Calvert Impact Capital. Though she appears today in her personal capacity, she previously served as the Deputy Assistant Secretary for Small Business, Community Development, and Housing Policy at the Department of the Treasury, and is a senior advisor to the Administrator of the U.S. Small Business Administration.

Mr. Joel Griffith is a research fellow in the Roe Institute at The Heritage Foundation. He previously worked as the Director in the Center for State Fiscal Reform at the American Legislative Exchange Center, as the Deputy Research Director at the National Association of Counties.

Ms. Dani Ritchie is the owner and stylist at Studio Alchemy in Harmony, Pennsylvania, a part of Pennsylvania not far from my State of Ohio, and it does not look that much different from that part of my State.

Welcome to all five of you. Ms. Bruce, if you would begin, and you have about 5 minutes. Thank you.

**STATEMENT OF WATCHEN HARRIS BRUCE, PRESIDENT AND
CEO, BALTIMORE COMMUNITY LENDING, INC.**

Mrs. BRUCE. Chairman Brown, Ranking Member Toomey, and distinguished Members of the Committee, thank you for the opportunity to appear before you today. My name is Watchen Harris Bruce, and I serve as President and CEO of Baltimore Community Lending. BCL is a Community Development Financial Institution, CDFI, located in the heart of Baltimore, with the dedicated mission to support the revitalization and strengthening of targeted neighborhoods through innovative and flexible financial resources. BCL's services include mini-perm mortgages and construction loans, in

addition to non-real estate small business lending that may not require collateral.

Prior to COVID-19, many of our businesses faced significant challenges accessing needed capital, due to business size, race, gender, and the inability to provide adequate collateral. As a result, many businesses have turned to more expensive capital resources, including, but not limited to high-interest credit cards and online lenders, many of whom are predatory. These trends were concerning prior to the pandemic, and COVID has worsened the already existing lack of affordable capital conditions in our community.

That said, in my testimony today, I would like to address the major issues and concerns facing my CDFI in Baltimore, and the CDFIs like mine around the country. As an African American led CDFI, BCL is a member of the African American Alliance of CDFI CEOs. The alliance is a nonprofit coalition comprised of over 46 CDFIs covering 50 States, with the purpose of strengthening the operational and fiscal capacity of alliance members and the mission of closing the Black wealth gap.

CDFIs can play a significant role in narrowing the racial gap and have been an effective tool in generating economic development in low-income and African American communities. However, African American led CDFIs have been significantly underfunded, greatly impacting our ability to stimulate and grow local the local Black and Brown economies that have consistently experienced disinvestment and underinvestment for centuries.

According to a recent study conducted by the Hope Policy Institute, covering the period between 2014 to 2017, the assets of White led CDFIs grew by \$22 billion, while the assets of minority led CDFIs grew by just \$683 million. This is an unfortunate result and directly impacts capital liquidity and our ability to successfully fund businesses and economic development projects in the communities we serve.

In the recent COVID relief packages passed by Congress, this body ensured that the CDFI fund received additional appropriations, which is a big step in the right direction. However, in passing the Emergency Capital Investment Program, ECIP, a program which provides \$9 billion in investment capital targeting minority led CDFIs, low-income communities, and areas of persistent poverty, the legislation excluded nonbank CDFIs, leaving many of our organizations still void of needed investment capital.

We believe it was the original intent that nonbank CDFIs not be excluded, and we ask that you consider opening additional authority and appropriations, specifically targeting minority led nonbank CDFIs. That said, I would also ask that you look to the New Markets Tax Credit Program as another mechanism for directly reaching minority led CDFIs. Our concern is that many minority led and smaller CDFIs and CDEs may be excluded from receiving awards, not due to the lack of experience or ability because the program's scoring system prefers larger, more tenured applicants. A possible solution for the Committee to consider is whether the fund should preserve a portion of each allocation cycle for emerging qualifying CDFIs and CDEs.

Thank you for the opportunity to provide testimony and share my views on these very important issues. We look forward to our continued work together and developing solutions for small businesses, affordable housing, and job creation. I thank you.

Chairman BROWN. Thank you, Mrs. Bruce. Mr. DeLoss, welcome.

STATEMENT OF JOE DeLOSS, FOUNDER AND CEO, HOT CHICKEN TAKEOVER, COLUMBUS, OHIO

Mr. DeLOSS. Thank you, Chairman Brown and Ranking Member Toomey, for the invitation to testify before this Committee. My name is Joe DeLoss. I am the founder and CEO of Hot Chicken Takeover. We are a small fast-casual restaurant chain based in Columbus, Ohio and intent on growing throughout the Midwest right now.

Though our business has an absolutely ridiculous name, it was built with a serious, transformative mission. I started Hot Chicken Takeover to provide employment to those who have experienced significant adversity in their lives, ranging from incarceration, to homelessness, to addiction, and to many things in between. Our team is a diverse cast of players, all working together to be a best-in-class restaurant chain. We currently have five restaurants open and a sixth under construction. Our team will approach around 200 people before the year end.

So this introduction, especially including mention of our employees' pasts, often garners warm, sympathetic responses. With that in mind, it is very important for me to distinguish that Hot Chicken Takeover is very far from a charity or some late-night TV commercial with sappy music. Our business is strong because our people are strong. Though they have been overlooked by the greater employment market, our team has led Hot Chicken Takeover to countless awards, national media exposure, and private investment from some of the greatest innovators in our industry. Our business is a very for-profit business, demonstrating the positive economics that can happen from deeply caring for and investing in your team.

When COVID-19 hit in the United States, our leaders immediately concerned themselves with the stability of our team and our community. With fear that restaurant sales may dry up completely, we made a choice to temporarily close our restaurants and move our team onto the emergency assistance and unemployment benefits that many of you engineered. This transition was far from smooth. Our remaining team essentially became a makeshift case management department, ensuring our team members' needs could be met through our own discretionary resources while the Government unburied itself from such immense service demand.

The other major consequence for our business from the pandemic was that we lost nearly \$2 million in committed private investment capital that was set to close the last week of March 2020.

So operating at a tremendous deficit, our remaining scrappy team jumped into action to pivot our concept and ready ourselves for reopening. This effort included everything from safety and sanitation initiatives, to reconfiguring our menu, to employee benefits, and to new integrating multiple new technologies. Along the way, we were able to secure the first round of PPP funding, some EIDL dollars, and received several sympathetic investments from our ex-

isting business partners. Without these supports, Hot Chicken Takeover would have been another casualty of the crisis. I am sure of it.

Thankfully, our concept was well positioned to serve post-COVID consumers. We began reopening locations in May of 2020. With dining rooms closed to ensure the safety of our team and our guests, we doubled down on carry-out and delivery business. We are still doing our best to avoid a lot of the predatory fees and poor service models of many other third-party vendors in our industry.

But we successfully recalled 90 percent of our employees upon reopening, which was a huge testament to our team and their commitment. We actually began hiring others displaced by the pandemic to accommodate some increased demand we were seeing. And since reopening, we have been able to stabilize financially, and we are cautiously approaching growth again, intent on creating more transformative and meaningful jobs.

All this said, the COVID crisis is far from over for our company, but we finally see a path forward for Hot Chicken Takeover and our team. And though we do see some glimmers of hope on the horizon, we represent a very small segment of just a completely decimated industry. Further assistance for our businesses and employees is critical for our communities to move forward.

Thank for this opportunity to share testimony, and thank you all for your leadership. I look forward to your questions and our discussion.

Chairman BROWN. Thank you, Mr. DeLoss. Ms. Milano.

STATEMENT OF JESSICA MILANO, BOARD MEMBER, SMALL BUSINESS MAJORITY

Ms. MILANO. Thank you, Chairman Brown, Ranking Member Toomey, and all of the Members of the Committee for inviting me to testify today.

Today I would like to discuss ways that we can move beyond small business to focus on how we can support sustainable, longer-term solutions for rebuilding Main Street small businesses. Many of the communities hardest hit by the pandemic have been communities of color. A study from the New York Fed found that Black-owned businesses are more likely to be located in counties with higher incidence of COVID-19 and concentrated in retail, restaurants, and other service industries most impacted by shutdowns. To make matters worse, these businesses often had weaker cash positions and weaker bank relationships before the pandemic, leaving them particularly vulnerable to the economic shocks that followed.

Research has shown that businesses that were underbanked prior to the pandemic had trouble accessing Federal relief like PPP. Very small businesses, the self-employed, and small business owners of color were much less likely to have a business banking relationship prepandemic. While roughly one in three applied for a PPP loan, only 23 percent of Black-owned businesses, and 27 percent of Latino-owned businesses received the full amount requested.

This data is not a criticism of PPP but highlights the challenges policymakers face in helping capital reach businesses and commu-

nities historically underserved and underbanked by traditional lenders.

The announcement this week of an exclusive 2-week window for businesses with fewer than 20 employees to apply for PPP is an acknowledgement of this and a positive step to provide relief to these businesses. But rebuilding Main Street will require support beyond this spring.

PPP also does not support new businesses. A silver lining of the pandemic has been the number of new business starts. According to recent census data, in 2020, there were nearly 4.5 million new business applications, a 24 percent increase from 2019. It is too soon to tell how many of these businesses will survive, but the data is encouraging because it reverses a decades-long decline in new business formation and shows how entrepreneurship can help lead the way out of the crisis.

As the Committee hears proposals to rebuild Main Street, I would like to recommend reauthorization of the State Small Business Credit Initiative as a complement to PPP and more durable form of long-term support. SSBCI worked by allowing States to set up their own small business support programs targeted to local economic needs. In total, it funded 154 programs nationwide and dedicated \$1 billion to lending programs and over \$400 million to venture capital programs targeting investment in early stage businesses.

The program succeeded in providing capital to very small and young businesses. Eighty percent of SSBCI loans or investments supported businesses with 10 or fewer employees, and nearly half were less than 5 years old, and 42 percent of SSBCI loans or investments were made to businesses in low- and moderate-income communities. This was achieved because the program partnered with often smaller community lenders and CDFIs that exist to meet the unique needs of historically underbanked communities.

In the last year, some States have sought to replicate these models. In May, New York launched the New York Forward Loan Fund with LISC, a CDFI that works with other New York-based CDFIs to provide low-cost working capital loans to businesses with fewer than 50 employees. And in November, California launched the California Rebuilding Fund, a public-private partnership that drives capital to CDFIs so that they can extend loans to the small businesses they serve.

To date, these programs have reached over 1,000 of the hardest-to-reach small businesses across their States, with 77 percent of loans to businesses in LMI areas or owned by an historically underbanked population. These businesses are the smallest of the small: 76 percent have 5 or fewer full-time employees.

Reauthorizing the SSBCI would help make these programs available in more States and help more small businesses access affordable loans beyond March 31st, when PPP is set to expire. Also, by providing flexible working capital and other forms of small business credit and investment products, SSBCI would address the gaps left by PPP and help more small businesses keep the doors open, so when restrictions are lifted they are ready to welcome back customers, stronger and more resilient than before.

Thank you again for inviting me to testify today, and I look forward to the discussion to follow.

Chairman BROWN. Thank you, Ms. Milano. Mr. Griffith, welcome.

STATEMENT OF JOEL GRIFFITH, RESEARCH FELLOW, THE HERITAGE FOUNDATION

Mr. GRIFFITH. Good morning, Chairman Brown, Ranking Member Toomey, and Members of the Committee. I thank you for the opportunity to testify today. My name is Joel Griffith. I am a research fellow at The Heritage Foundation.

Beginning in March of last year, our Nation witnessed a historic plunge in economic output. This was the first time in our Nation's history that the Government intentionally suppressed the supply of goods and services and also suppressed consumer activity by artificially suppressing demand. It is certainly not for want of Government spending that the economy still has not recovered. The Federal Government has borrowed, printed, and spent trillions of dollars in an effort to cushion the economic downturn. And rather, it is Government-mandated closures and the public perception of the health crisis that continues to deter investment and suppress economic activity.

Congress has already approved more than \$1 trillion of aid intended for small businesses, including \$800 billion to the Paycheck Protection Program. Much of this aid is actually still available. In fact, of the additional \$284 billion provided for PPP in the December stimulus package, only 36 percent had actually been obligated through February 7th. Another \$15 billion in this current legislation is proposed for the targeted Economic Injury Disaster Loan program, but as of February 12th, none of the \$20 billion that has already been appropriated has been obligated either.

On top of all of this prior spending and all of the spending that has already been approved but not allocated, this current legislation provides \$10 billion to restart the State Small Business Credit Initiative. The SSBCI funds State programs that provide Government loan guarantees and Government loan purchases to politically favored businesses. Numerous problems have plagued this program in the past. It has been well documented. In fact, the Office of Inspector General found only four States to be in full compliance with the program.

These funds for SSBCI do not actually fill a need of small businesses that have not already been met by the market. Instead, this serves to operate as a slush fund for State and local government politicians across the Nation, a purpose which is most certainly detached for combating the economic fallout from the shutdowns.

It is a misnomer, in general, to believe that credit markets are not providing funds to small businesses. Most small businesses are now saying they are generally not looking for more credit. Only 3 percent of respondents to a recent NFIB survey reported that their borrowing needs are not satisfied. Small business credit conditions in December, based on the percentage of businesses reporting easier lending conditions, were actually identical to conditions 1 year prior, and that was months before COVID-19 began. Obtaining fi-

nancing is the reported top concern of just 1 percent of small business owners.

Our credit markets serve an important function of efficiently allocating resources across the economy. Usually, businesses and projects must compete with each other to obtain limited amounts of capital in order to secure the resources to function. When the Government provides capital at submarket interest rates, or in the form of outright grants, businesses which otherwise may not secure funding in a competitive environment find it possible to continue consuming limited resources which would have been more productively deployed elsewhere, to other companies, and this crowds out private capital. More importantly, this places control over the allocation of resources into the hands of Government officials rather than the free market.

Another troubling component of this legislation is the \$15 Federal minimum wage. This would price those who earn less than \$36,000 per year, which is the payroll cost of employing somebody—this would price them out of the marketplace and it would destroy jobs and opportunities for those who most need it, including the 26 million Americans who have not graduated from high school. Young adults seeking first jobs, people with living disabilities, people reentering society after incarceration will be amongst the first to be priced out of the jobs market by \$15 national minimum wage.

And The Heritage Foundation recently released a study that showed that this would also result in child care prices increasing by 20, even 30 percent across the country, a \$5,000 to \$6,000 burden on middle-class families.

A full economic recovery does not stem from stimulus checks or bailouts from Washington, D.C. Rather, it is a result of individuals and businesses safely and legally interacting with others. The pace of this recovery varies across the Nation, but in States that have actually ended their lockdowns you see economic growth far exceeding that of the national average. In fact, we have eight States now, in this country, that have a larger economy now than they did prepandemic, and this contrasts sharply with places like New York City, L.A., and Chicago, which are mired in the midst of an economic recession produced by policies which refuse to allow people to reenter society.

Thank you for the opportunity to testify this morning.

Chairman BROWN. Thank you very much, Mr. Griffith.

Ms. Ritchie, please proceed. Thank you for joining us.

**STATEMENT OF DANI RITCHIE, OWNER/STYLIST, STUDIO
ALCHEMY, HARMONY, PENNSYLVANIA**

Ms. RITCHIE. Thank you. Chairman Brown, Ranking Member Toomey, and Members of the Committee, thank you for the invitation to testify today and allowing me to share my story.

My name is Dani Ritchie. I am a hair salon owner and part-time service worker from New Castle, Pennsylvania, and my hair salon is located in Harmony, Pennsylvania. I opened my business in 2016, only a year after graduating cosmetology school.

In addition to working as a hairstylist, I work part-time as a server and bartender, and working in the restaurant industry

while attending college, I could pick up extra shifts when I was low on cash, and my flexible schedule allowed me to go to school while still making an income. I have worked in the restaurant industry for 18 years now, and 10 of them at North Country Brew Pub in Slippery Rock, Pennsylvania, where I am still currently employed part-time.

Being a server and bartender is what allowed me to pursue my passion of becoming a cosmetologist and open my salon. The flexible hours allowed me to attend school, and the generous tips are what helped me to save and open my salon without having to get a loan.

When Pennsylvania first imposed business shutdown orders in March of 2020, I had to close the doors to my salon for over 3 months, while still having to pay rent and utilities for an unoccupied building. I was also unable to work at the brewery at that time because it was temporarily shut down, but luckily, when the brewery was permitted to open back up on a limited basis to provide take-out and delivery orders, I was able to pick up work there.

The owners of North Country Brewing Company, Bob and Jodi McCafferty, are incredible people who have worked so hard to provide not only one, but three unique, sustainable businesses in Slippery Rock and Harmony. All three locations have provided secure employment for 206 people, that is, until the Government put in place coronavirus restrictions for restaurants.

During the first round of shutdowns, they could only keep 23 active employees on payroll, and during the second round of shutdown, there were only 39 active employees on payroll. It is heart-breaking to see the astronomical number of restaurants and other small businesses that have suffered financially and had to close permanently because of the economic hardship caused by Government shutdowns and restrictions.

Given these challenging circumstances, I am deeply concerned by the proposal to raise the national minimum wage to \$15 an hour and eliminating the tip credit. This proposal would be financially devastating to restaurants and other small businesses and many of their workers. Servers at the brewery are paid \$3 an hour plus tips, and our tips provide us with an income that surpasses \$15-an-hour minimum wage. Asking Bob and Jodi to increase the majority of their front-of-house staff to \$15 an hour is asking them to give a 400 percent raise to most of their employees. That would be a severe increase in expenses, at any time, but will be especially difficult given that COVID shutdowns and restrictions have caused an enormous hit to sales.

Jobs will be lost, and menu prices will skyrocket to cover the mandated raises, which will undoubtedly deter customers from wanting to go to any restaurant. The small businesses that have been lucky to keep their doors open after COVID restrictions are going to have an incredibly hard time surviving if they are forced to pay these wages. That is not to mention the hit to the service industry, tip-reliant workers like myself. We take jobs at restaurants knowing that we are signing up to make \$3 an hour, and we work hard to provide great service to our customers with the hope that they will compensate us with tips for the “above and be-

yond” service received. We are not asking for a flat rate of \$15 an hour, which will be a major cut in our income.

The restaurant industry has been running on this model for over 80 years now, and it is not broken. The majority of people fighting for this “one fair wage” have never worked at a restaurant a day in their lives and do not understand that we make a good living with our tips. We are not asking for their help, and they are actually doing us way more harm than good.

What restaurants, other small businesses, and their workers need is for the economy to fully reopen. Many Government-imposed business restrictions, such as the 25–50 percent capacity, are unnecessarily harmful and need to be lifted as soon as possible. These capacity restrictions do not make sense for many businesses, including my hair salon. With what we know, and are continuing to find out about the virus, I believe we can safely accommodate 100 percent capacity with modifications that allow for proper social distancing and mask wearing. It should be up to the individual to decide if they want to go to an establishment or stay home, because, after all, we are supposed to have freedom of choice here in America.

Thank you for your time and for listening to my story as a small business owner of 5 years and a tipped service worker for 18 years. Please hear my words as someone who has been blessed to earn a more than fair income in the restaurant industry with the wage model set in place, as-is also as a small business owner, negatively affected by Government restrictions imposed as a response to this pandemic. Piling on more requirements for businesses will only hurt business owners and employees who have already been through enough, and we need to move forward from this before it completely crashes our economy and crumbles small, locally owned businesses.

Chairman BROWN. Thank you, Ms. Ritchie.

I will begin with 5 minutes of questions. Mr. DeLoss, Hot Chicken Takeover is known for giving its employees a second chance and treating them well. Describe, if you would, how investing in your employees has benefited your business.

Mr. DELOSS. Thank you, Senator Brown. Yeah, Hot Chicken Takeover employment model is something I have worked on, at this point, for about 15 years, between this business and others. We take a strategy of offering our employees kind of myriad benefits, and though there are conventional benefits like health care, 401(k)s, other things that opportunistically move people forward, we also meet our employees where they are at, with relevant benefits surrounding matched savings accounts, deeper investments in financial literacy and support. We do all of this and it pays a return.

And so what we have seen from our orientation to our team is that we are producing two to three times better retention than most in our industry. So when you are looking at statistics of a turnover of an employee costing you upwards of \$5,000 in hard costs—I think Cornell just put that out—what we are seeing, we are seeing our turnover at sub-40 percent versus 150 percent a year. So we can look at kind of the hard math of an ROI and what the investments we do in our team make for our business, and we

are grateful to continue them and advocate to other people to do them as well.

Chairman BROWN. Thank you. Ms. Bruce, we heard from Federal Reserve Board Chair Jerome Powell this week that when it comes to our recovery the job is not done. Wall Street might be doing fine but I hear from small businesses in Ohio and across the country that they still struggle to stay afloat during the pandemic, which, as you have pointed out, hit Black and Brown businesses and communities disproportionately hard.

How do the products and services you offer help your clients keep their doors open and help your clients address the racial wealth gap?

Mrs. BRUCE. Thank you, Chairman Brown. The products and services we offer are very important to creating wealth and helping them sustain themselves. Our products are flexible and they are definitely below market. Our products are catering to people who ordinarily will not qualify for traditional banks. Because we are a CDFI we are mission based, but our products help businesses have access to capital because of this flexibility and also long term.

For example, a lot of the businesses we are working with are microbusinesses, and so most commercial banks do not do loans, microloans, even small business loans below \$250,000. So most of our products are below that. But without our products, a lot of them would not have access to the capital needed to expand or grow their businesses. And this helps them to create wealth for themselves and their employees. So that is why we need more flexible, long-term capital to do more to help our businesses sustain themselves and generate the type of cash-flows they need for their businesses.

Chairman BROWN. Thank you, Mrs. Bruce. Ms. Milano, President Biden's American Rescue Plan called for an addition \$50 billion in small businesses assistance. As part of this, the House Financial Services Committee, the House counterpart of this Committee, approved a measure that would approve \$10 million in the State Small Business Credit Initiative to help small businesses recover from the pandemic.

How would the SSBCI funding help businesses in underserved areas like Butler County, Pennsylvania, and Black and Brown communities rebuild or expand their operations and recover from the pandemic? Ms. Milano.

Ms. MILANO. Yes. Thank you. So SSBCI, I think, helps because it is very different from other Federal small business support programs because it is not a one-size-fits-all approach with top-down sort of uniform loan requirements like PPP or other SBA loan programs. It really is a flexible form of support that works with States to develop and design their own small business support programs to address market gaps like funding to CDFIs, to smaller community lenders. And, importantly, it is the only program of its kind that support venture capital financing to help drive investments to communities that are outside sort of the venture capital financing hubs in America, in New York, Boston, and San Francisco. It really works to attract funding in other areas of the country.

So I think that is a very important difference, and I think that is a longer-term form of support that is really focused on helping

rebuild coming out of the pandemic as opposed to the sort of current programs which are focused on relief.

Chairman BROWN. Thank you. Senator Toomey.

Senator TOOMEY. Thank you, Mr. Chairman. Ms. Ritchie, thanks very much for joining us today. You have an extraordinary story, and I wanted to ask you about this. I want to make sure I understand some of the facts.

In Pennsylvania, I believe the minimum wage is \$7.25 an hour.

Ms. RITCHIE. Correct.

Senator TOOMEY. And I think the minimum tip wage is \$2.83 an hour.

Ms. RITCHIE. Mm-hmm.

Senator TOOMEY. And your story, if I have got it right, is that while working in an industry where the minimum wage was \$2.83 an hour, you managed to support yourself, put yourself through cosmetology school, and then launch your own small businesses. How is that even possible on \$2.83 an hour?

Ms. RITCHIE. What a lot of people do not understand is though the minimum wage is set at \$2.83 an hour, we are covered by the tip credits. And what a lot of people do not understand is what the tip credit actually is. So say, like, in my case I make \$3.00 an hour at the brewery. If I go to the brewery, and say it was a fluke day, nobody comes in, I do not make any tips, then it is up to Bob, as the restaurant owner, to make the difference in my paycheck hourly to ensure that I make at least minimum wage.

Senator TOOMEY. And, in fact, when business is pretty good, you can make much more than minimum wage, right?

Ms. RITCHIE. Much more, yes. Thankfully.

Senator TOOMEY. Yeah, and you often did.

Ms. RITCHIE. Mm-hmm.

Senator TOOMEY. Right. Let me ask you this. Now you have your own small business. What do you think would be more valuable for your employees, a \$15 minimum wage or to be able to fully open and accommodate, safely, the customers you can accommodate?

Ms. RITCHIE. We definitely need to reopen. This is not doing anything good for the economy. As I said whenever I gave my testimony, the 50 percent capacity just does not make sense, especially because in a hair salon I have to be so incredibly sanitized and sterilized anyway, and the distance between our stations is much more than six feet, so I believe we can absolutely safely accommodate 100 percent capacity.

Senator TOOMEY. And you and your customers have every incentive to be careful, to take the proper precautions. Is that what you do now, with respect to the customers you are able to serve?

Ms. RITCHIE. Yes, absolutely, and we actually, at the salon, we do have masks to provide to customers that do not show up with their own, and we have hand sanitizer everywhere. We sanitize our stations and our tools after every client, whenever we are finished with them, before anybody else even enters.

Senator TOOMEY. Well, congratulations—

Ms. RITCHIE. Thank you.

Senator TOOMEY. —on an amazing and terrific story.

Mr. Griffith, you know, we see the CBO estimate that if the minimum wage goes up to \$15 it could destroy 1.4 million jobs, maybe

considerably more than that. It seems pretty clear that what this amounts to is the Government picking winners and losers. Some people would get raises, but a lot of people would lose their job. You know, Thomas Sowell wisely observed that the Government can set any minimum wage it wants, but there is always a minimum wage of zero.

So let me ask you this. If we double the minimum wage, why couldn't businesses just raise their prices to cover the added costs, so that they would not have to lay anyone off?

Mr. GRIFFITH. That is a good question, and if you look at the sectors in which the minimum wage is most prevalent, a lot of those are sectors with very low profit margins. So think of a restaurant, for instance, that has a 5 percent profit margin and labor costs that eat up half of their expenses. Well, if you double or triple—and let's just go with doubling the minimum wage to \$15—well, suddenly their entire profit margin is eaten away. They become either insolvent or they have to raise the prices to accommodate that.

Well, in many of these restaurants they would have to raise prices on their standard fast-food package by close to 40 percent, and in those instances, many individuals would choose no longer to frequent the restaurant but go somewhere else, or that restaurant will be forced to prematurely automate. Automation can be a positive thing, but in this case this would be Government nudging these companies to automate early, and many of these individuals that work there, they do not work in those jobs for long. They get the on-the-job training and they move on. I worked at a minimum wage job for several years through college, getting that experience. You move on after you get it. But when you double this, it just denies people that opportunity to get that first shot at getting that on-the-job training.

Senator TOOMEY. And just very quickly, you indicated in your testimony that all of this Government funding and grants and loans is having the effect of crowding out private capital and misallocating resources. Can you explain to us, what is the net effect of that? So what? What is the problem with the Government being a substitute for the private allocation of capital?

Mr. GRIFFITH. Sure. Well, when the Government becomes a substitute of that private allocation it means that businesses that otherwise would have been able to obtain capital and produce things more efficiently, it means they will not have access to that. Usually you think of businesses bidding with each other by paying higher interest rates for a limited amount of capital, and those businesses that can produce the most, they are able to go ahead and obtain that loan or obtain that investment.

In this instance, you end up having the Government allocating capital to a business, based on other factors beyond credit-worthiness or beyond whether or not that company is likely to be able to produce, and then you are able to curry political favor but it does not result in net economic growth. And we have seen SSBCI riddled with this over the years, and we have many, many studies now that are able to look at how those loans have gone to businesses that actually did not produce the economic output that we hoped for.

Senator TOOMEY. Thank you. Thank you, Mr. Chairman.

Chairman BROWN. Senator Menendez of New Jersey.

Senator MENENDEZ. Thank you, Mr. Chairman, and thank you to all our panelists.

It is clear that our small businesses have been hit hard by the pandemic. According to the Federal Reserve, 78 percent of small businesses experienced revenue loss in 2020, and overall revenue growth and employment decreased substantially for the first time in 5 years. As small businesses continue to struggle with sharp revenue losses, businesses are desperately seeking financial lifelines to make it through these uncertain months ahead.

Stepping up to fill these financing needs are alternative financing companies, promising easy approvals with little to no documentation requirements and funding in under 24 hours. However, some of these financing companies are not transparent in their loan terms, and small businesses can end up taking on debt they do not understand and cannot afford. Without cost transparency, businesses cannot distinguish financial lifelines from land mines.

So let me ask, Ms. Milano, do current small business financing disclosures provide small business owners with the information they need to understand the costs of the credit product and make an informed decision about whether it fits their needs or not?

Ms. MILANO. While some States have taken steps to set disclosure requirements for small business loans, at the Federal level there is no standardized disclosure requirements. As you know, Truth in Lending Act disclosures do not apply to small business credit products. This makes it very difficult for a small business owner to know what they are getting into with some of the riskier products online, as you mentioned, and second, it makes it impossible to comparison shop for the best terms. Some providers disclose rates that are not APRs, but business owners assume they are APRs, leading them to take out financing that is far costlier than anticipated, and possibly unaffordable.

Senator MENENDEZ. Well, I appreciate that and completely agree. I mean, the current lack of any disclosure requirements leaves small businesses exposed to deceptive practices. According to the Federal Reserve, current small business loan disclosures often leave business owners unable to make informed comparisons about the price of financing, and additionally, according to the Fed's study of online lenders, small business owners found the descriptions difficult to understand or lacking detail about costs and features.

So what types of financing terms would small business owners find helpful to bring transparency and uniform disclosures so as to better understand a credit product?

Ms. MILANO. Sure. So first I think it is important to apply disclosures not just to loans but all small business credit products. So that includes merchant cash advance and other products similar to loans. And then I think APR is essential for borrowers to compare products and make informed decisions. Borrowers often need to know the financing amount, the payment amount, the frequency of payments, if it is more frequent than monthly, and the term. They should also know any up-front or scheduled changes and prepayment costs.

Senator MENENDEZ. So APR disclosure in small business credit is essential to make comparisons from apple to apple, cost comparisons. Would Truth in Lending Act, would TILA to small business financing with APR calculation guardrails that prevent manipulation by bad actors provide enough transparency and uniform term disclosures to allow small business owners to make informed financial decisions?

Ms. MILANO. Yes. I think APR is the only established metric that we have that enables informed comparisons of the cost of capital over time and between products of different dollar amounts and term lengths. That is why APR is the long-standing price metric that people are familiar with. It has been vetted for over 50 years through the Truth in Lending Act, and an estimated APR can be used, and has been used by some market participants, when providing variable term financing such as merchant cash advances, so that consumers can actually compare those products to loans with fixed APR.

Senator MENENDEZ. Well, thank you. It seems to me that transparent price disclosure is the foundation of a free market without which price competition effectively fails, and TILA requires transparent disclosure for consumer loans but not for small businesses. And to ensure truly transparent and competitive market, disclosure requirements should apply equally, I think, to small business financing products.

Congresswoman Velazquez and I are working on a bill to extend TILA to small business loans, if, as they say, the sun is the best disinfectant, it is time to give some sunlight to the small business credit.

Finally, the Administration has taken the important step of setting aside a 2-week window where only small businesses with fewer than 20 employees can apply for the PPP forgivable loans. Ms. Milano and Mrs. Bruce, are there any similar actions along those lines that you would recommend to ensure that minority-owned and other underserved small businesses get equal access to COVID relief?

Mrs. BRUCE. Yes, Senator. Thank you, Senator, for the question. Yes, I think it is a very important action because, for example, our product in Baltimore, and similar CDFIs nationally, we target businesses under 50 employees. And I think this act is important because we provide a lot of technical assistance and capacity-building so countless businesses understand what they are applying for. We just talked about the truth in lending and disclosure.

But it is important to provide comprehensive technical assistance, meaning helping them to understand the credit, what they are applying for before they receive the loans, and after they receive the loans. This helps to mitigate the risks for default, but also just having resources to provide technical assistance like capital grants, because that is not an income-generating product. We provide that in-house, and it would be great if there are products similar to what the housing industry is doing for pre- and post-counseling for home ownership. We need similar products like that on the small business side, because education is important, especially if they understand the risks they are taking on, it helps to mitigate defaults and helps improve cash-flow.

So this is a great step, a first step in helping targeting small businesses with 20 or less employees. Thank you.

Senator MENENDEZ. Thank you, Mr. Chairman.

Chairman BROWN. Senator Rounds from South Dakota, if he is here. If not, Senator Hagerty from Tennessee, you are next. Please proceed.

Senator HAGERTY. Thank you, Chairman Brown, Ranking Member Toomey. I appreciate your holding this hearing today as we look to rapidly recover from the effects of this pandemic and get the resources that we are providing most directly targeted to those in need. I would also like to say that I am very optimistic at the fact that Operation Warp Speed has gotten vaccines going into arms, that we are seeing our economy recover.

I am very pleased with the projections that Main Street is on the road to recovery, and want to acknowledge the important role that our community banks have played, that our credit unions have played, that our Community Development Financial Institutions, Minority Depository Institutions have played, in helping bring our economy back. And I want to acknowledge the role that the Congress has played, multiple times, addressing this pandemic on a very bipartisan basis, and I hope that we can continue to do so as we move forward, in a bipartisan way.

First I would like to start with Mr. DeLoss. I am from Tennessee and I am very interested in your Hot Chicken concept. I am curious about what inspired that.

Mr. DELOSS. A trip to your fine State, in fact.

Senator HAGERTY. I was thinking that might be the case.

Mr. DELOSS. My wife and I took a trip to Nashville on a bit of a babymoon before our first kid was born, and were inspired, and had nothing like it in our market.

Senator HAGERTY. Well, I will have to say this. Coming from Tennessee, from the Nashville area, Nashville is going to remain the home of Hot Chicken, the capital of Hot Chicken, but I am delighted to see it expand.

I also want to commend you for your hiring practices. I think you are doing a great service. I think it is very consistent with the criminal justice reform that we saw under the past Administration that was passed on an overwhelmingly bipartisan basis. So I want to thank you for what you are doing and the leadership that you are bringing to bear there. And my very best wishes to you and I am delighted to hear that the PPP has been a product that has helped you continue through this crisis.

I would like to turn next to Ms. Milano. Ms. Milano, I want to thank you for your dedication to America's small businesses. You have deep experience in this area, and, you know, our small businesses really have been at the core. They have been the engine of our economic growth for so long. They are going to continue to be critical to our growth as we come out of this pandemic.

I really want to understand the impact of what we have been talking about here on the pandemic, and specifically the timing of the programs that are involved. You have had a lot of experience running this program, and if you could take a look at the other programs that the Biden administration is in the process of implementing since December of 2020, that came through our bipartisan

relief packages, including, for example, \$12 billion for CDFIs and MDIs, \$15 billion to shuttered venue operations.

In your best estimate, how long will it take us to get those programs set up and begin to get dollars, incremental dollars into the accounts of those small businesses that need them?

Ms. MILANO. Sure. Thank you. So I think that those programs—and Treasury is in the process of standing those up right now, as I understand it, and I think that the \$3 billion for the CDFI fund, or loan funds, and the \$9 billion, or \$12 billion that was put for MDIs and CDFIs and the Emergency Capital Investment Program have enormous potential to recapitalize these institutions. And I think that Treasury is getting ready to release rules and program guidelines for those, and get those dollars out the door this year, and I think that helps recapitalize those institutions to help serve underserved borrowers and their communities.

And I think that what we are being requested today, like SSBCI, sort of comes in after that and complements that by working with different types of financing entities in the small business ecosystem to support not just the lenders, which those two programs support, but also the businesses themselves, and provide different types of financing, like venture capital financing, which is not part of those programs that were passed at the end of the year. So I really do think they are complementary.

Senator HAGERTY. Yeah. You know, I am a businessperson for a long time, and resource allocation is absolutely critical. And if you look at the PPP fund, in which we have been able to put billions of dollars into the economy on a very rapid basis, the package that was passed in December, of \$284 billion, as of Sunday only half of that has been put to work. There is \$144 billion that is still there, waiting to be put to work.

In my sense, and I hope you will agree, is that our resources should be most focused on addressing the pandemic, on those that have been impacted by the pandemic, and addressing that PPP lending program and getting those dollars into the economy before we look at other forms of long-term lending that could take, you know, months or longer to get in place.

Ms. MILANO. I mean, I think that those programs—PPP applications will expire March 31st, and there will be a need, we know, beyond the end of next month for funding. And so I think it can work together.

Senator HAGERTY. My hope is that we focus very heavily on targeting the PPP funds and getting this \$144 billion out the door.

Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Hagerty. I would add, from Mr. DeLoss's statement, my wife and I, right before the shutdown, took a trip to Nashville—we had never been there—for her birthday. It was decidedly, fortunately not a babymoon for us. But nice touch. I appreciate that from both of you.

Senator Tester from Montana.

Senator TESTER. Yeah, thank you, Mr. Chairman, and thank Ranking Member Toomey too for having this hearing, and all the witnesses who have testified. And I would just tell you this, Mr. DeLoss. Montana is a long way away from Pennsylvania, but I tell you, we like good food there too, so come on down any time. You

can expand this venture that you have got going. But congratulations.

My questions are for Jessica Milano, and they really do dovetail into some of what Senator Hagerty was asking you, and it deals with the State Small Business Credit Initiative. In following the last economic crisis, this was incredibly successful in Montana. So successful that Montana is often used as an example of how this program can benefit small businesses and the communities where they reside.

I have been pushing, for the last year, to use the program again to help address this current health and economic crisis that we are in, and I have been hearing consistently from Montanans that small businesses are still struggling. There are industries where we will continue, even once there is a widely available vaccine, to struggle. And for some of those small businesses the Federal programs so far have not met their needs. And one of the great benefits of the SSBCI program is that the economic development organizations are able to address the specific needs in their communities in a much more effective way.

So, Jessica, from your perspective, helping run the first iteration of the SSBCI program, and you have touched on some of this stuff with Senator Hagerty, but could you highlight, for the folks on this Committee, and anybody else who is watching, what makes this program so useful.

Ms. MILANO. Absolutely. Thank you, Senator Tester. So I think, again, it is a complement of what has been done to date, and what is different about it is it worked with States like Montana to develop and design their own programs that were targeted to their unique needs. So if they needed to serve microbusinesses, they could establish a credit program to do that. If they wanted to commercialize technology around a university ecosystem, like Pennsylvania did, they could do that.

And I think that flexibility really helped create vibrant small business ecosystems around the country that were best tailored to local market needs, and I think that is an important continuing need that we will have coming out of this pandemic.

Senator TESTER. I could not agree with you more. Tailoring it to local market needs is the key here, and then I think it is really what makes this program so really effective.

But let's talk about if there are any areas of improvement from the previous SSBCI program that could be make this version even more impactful in addressing the challenges caused by this pandemic.

Ms. MILANO. Absolutely. There are always ways that we can improve things, and that is the purpose of evidence-based policy. So having gone through this once I think there are a couple of key ways.

First, we could make it a little bit easier for multi-State programs, for States to actually, or lenders that have a regional footprint, to work across States. I think, second, you know, given how much funding has already been put toward PPP, we could try to further support CDFIs and ensure that minority-owned businesses are receiving the capital, by putting an emphasis, or setting aside

a portion of the money competitive to be awarded in a way that targets programs that meet those underserved populations.

Senator TESTER. Very good. Well, thank you. I am going to yield back the rest of my time, but I want to thank all the witnesses for being here, and I appreciate your commitment to the economy of this country, and we will move from there.

Thank you, Mr. Chairman.

Chairman BROWN. I am not clear who is in line, the names on the screen. Senator Warner—is Senator Warner here?

I think Senator Lummis will be next, if she is here. I know Senator Van Hollen wants to ask a question of Mrs. Bruce, but he stepped out for a moment.

Senator Cortez Masto, if you are ready.

Senator CORTEZ MASTO. Thank you so much. This has been a great conversation and I so appreciate the thought process going into this, because in Nevada, and I think we all agree, small business is the backbone of our economy, and we want to make sure not only are they driving, but for our workers that they are paid a livable wage. And so I appreciate this conversation [inaudible] an individual that we are looking at, that should only have to work one job to have a livable wage and not have to work 40 hours a week and still not be able to survive or thrive. I just thank you for your work ethic and your entrepreneurship.

In Nevada, this is an issue for us, as across the country, because this pandemic has just devastated our economy. And we all recognize that we need to increase our wages, but at the same time we want to make sure our small businesses can thrive as well. That is why I so appreciate this conversation, Ms. Milano, around the SSBCI. I think our goal here is to balance both of those, so our workers thrive, our businesses thrive, and I think this is a great program for us to incorporate for our small businesses as we come out of this pandemic and help them thrive.

But I guess the first question I have, maybe Ms. Milano, during the pandemic, monthly business applications have surged well above their historic levels, and according to data from the Census Bureau it is clear that many Americans have decided to use this time to transition from traditional employment and become entrepreneurs. And I have seen that in my State as well.

My question to you is, what policies should we be thinking about to help these new entrepreneurs? Is it just addressing the SSBCI? What other things can we be thinking about to make sure that these new entrepreneurs thrive?

Ms. MILANO. Well, thank you, and I think it is some of what has been done to date. For sure, some of the programs that we have done to put capital into CDFIs and Minority Depository Institutions I think help reach those businesses. And then I think SSBCI also helps reach those businesses. I think those businesses will be very varied. Some of them will need microfinancing, you know, small-dollar loans to get their businesses off the ground. Some of them might actually be those rare, high-growth businesses that become the real leading job creators in their State, and could benefit from the type of early stage financing that SSBCI can provide.

Senator CORTEZ MASTO. Thank you. I appreciate that. Is there anything that we should be also thinking about as we come out of

this pandemic and we look to our labor workforce, particularly, as I said, I come from Nevada, we have one of the highest unemployment rates in southern Nevada. We are a service industry. What else can we be doing to support our workforce? Is there more that we should be doing for workforce training and development? And I would open that up to the panel, if anybody has any ideas around that.

Ms. MILANO. I mean, I think there is always more that we can be doing to support both workforce training and then I think technical assistance for folks that are just filing this application to become an entrepreneur, to work with them, to understand what it means to get credit ready, to have a business plan, and to grow their business. And then I think, you know, there is more that can be done to provide education and training for both businesses and workers of those businesses, to ensure that they can be matched with the employees they need to help that business grow.

Senator CORTEZ MASTO. Thank you. I am sorry. Did somebody else want to say something?

Mrs. BRUCE. Yeah. Can I just add to that, I just wanted to second what Jessica said. In essence, especially for those employees that are transferring or lost their job during the pandemic, they need technical assistance to transition to employment. Like our CDFIs will work with a lot of startups, so we have a product to target businesses that have been around for less than a year. But they need a lot of technical assistance or training to help them.

So it would be great to have products like equity, like the EQ2's or access to flexible investment capital like what was just recently passed. The Emergency Capital Investment Program is almost like equity loan-like program, but it was not given to CDFIs, nonbank CDFIs like our CDFIs. So we hope to receive those types of flexible, long-term equity-like investments, because we are providing a lot of technical assistance to help businesses sustain and stay in business after they receive financing. Thank you.

Senator CORTEZ MASTO. Thank you so much to the panel. I know my time is up. I so appreciate the conversation.

Chairman BROWN. Thank you. Senator Lummis from Wyoming, welcome.

Senator LUMMIS. Thank you, Mr. Chairman, and I want to first of all say to Mrs. Bruce, you spoke about a subject earlier in your remarks that I find really important to Wyoming, in the area of American Indians. You spoke about the program that you are working with and made some recommendations for how to improve them. Could you just start by explaining a little further what your programs provide in the minority community you serve?

Mrs. BRUCE. Well, thanks for asking, Senator. Our program works with small to medium-sized businesses, and what we provide, we give them alternatives to predatory lenders, because we, first of all, build trust, because we are local. We build a relationship. We hope to analyze their needs in terms of credit needs to expand or start a business, and then we develop products based on market need. It is not generic, but we create those products to make sure we have startup businesses, emerging businesses, who, by less than 2 years, we give them capital. And what we try to do is to help them with fixed-rate loans to make sure they can plan

in advance, because in terms of budget planning, it is great for a startup to have a fixed interest rate, and long term, to help them manage their budget.

But second and most importantly, we have a comprehensive technical assistance program, meaning before they access the loans we help them understand financial management, work with them on developing business plans, with actuals or projections, and we help them with financial statements, to understand the balance sheet and income statement. Someone could be great at doing a business, but if they do not understand the growth plan and how they can retain them, their businesses will fail.

But most importantly, after that we follow them through the process, so it reduces the risk of default. We do post-TA, meaning the TA is not just during the training. We call them and we interview if there are issues to maybe give a default. So it is labor intensive but it is needed to help those businesses transition from small, nonbank CDFIs like us to traditional banks.

So our products, we do loans to as low as \$5,000 up to \$150,000, but it is to help with growth and also sustain them during that period with offering the training and technical assistance needed to survive, especially during this period. Even with the PPP, we are doing a lot of loan packaging as well as documentation gathering, to help them access PPP on a timely basis. And I really appreciate your question. Thank you for asking.

Senator LUMMIS. Thank you, Watchen. My next question is for you, Joel, and I am sorry, I am using first names today. I am being a little personal here.

The proposed State Small Business Credit Initiative Amendments allow the Secretary of Treasury, for the first time in history, to determine if a State's laws allow predatory lending. Lending and usury laws have historically been the province of State legislature. My State of Wyoming even has a usury cap.

Isn't this another example of Washington taking away decision-making power that individual States already know how to use best?

Mr. GRIFFITH. Yes. Thank you for the question, Senator, and I just had a wonderful visit to Wyoming, by the way. But yes, this is troubling. This is another example of the Federal Government trying to determine what business practices should be in individual States, and, of course, all of us would likely agree on this idea of predatory lending. We would not be in favor of it, but the details are important. What is the definition, and States have gone to great lengths to define, for them, what types of lending practices are prohibited. So using this as a tool to force whatever definition the current Presidential administration might decide, forcing that onto States would be problematic, in addition to all the other concerns with this program that we saw back about a decade ago.

Senator LUMMIS. Well, I want to thank you. I am actually out of time. This is such an impressive panel and I would love to ask more questions. But thank you so much, Mr. Chairman, and thank you, panelists. I yield back.

Chairman BROWN. Senator from Maryland, Senator Van Hollen.

Senator VAN HOLLEN. Thank you, Mr. Chairman, Ranking Member Toomey, and let me thank all the panelists. Just very quickly

on that last point, one of the big issues we are seeing, actually, is some of these FinTech lenders using the last Administration's rent-a-bank rules to actually evade some of the State caps that are trying designed to avoid predatory lending. So if we believe that States should be able to set these usury caps where they want, we should also make sure that we do not allow workarounds through the national banks.

But let me just ask a question of Mrs. Bruce, and, Mrs. Bruce, thank you for your leadership as President and CEO of the Baltimore Community Lending CDFI. I know you have also worked in the commercial banking sector, I believe JPMorgan, Bank of America, PNC.

Earlier, Mr. Griffith indicated that there is only a small percentage of small businesses seeking capital and that essentially the market can effectively decide who deserves a loan. Having worked for some time in the commercial banking sector and now at the CDFI in Baltimore, is it your experience that you are making many loans that are sound loans that would never have been made from the commercial banks?

Mrs. BRUCE. Well, thank you, my Senator. This is my Senator from Maryland. Thank you, Senator. I do not know how to even answer this question. Our CDFI is making an extreme difference. Coming from a commercial bank, I am excited to work at a CDFI, because the banks, the loans that we are making are not bankable for the commercial banks, or, in essence, the credit criteria are very difficult for those small business to meet.

Our products, we have credit enhancement, we have loan officers to mitigate with, and our credit enhancement is our TA. If we were not doing that, we would not be able to give out loans. So maybe it is definitely other States, but in Maryland, and in the city of Baltimore, our CDFI is meeting market needs. We are doing exactly what businesses need to access capital. These are businesses that would not be able to have the kind of excellent credit that a commercial bank is offering. We work with businesses that have minimal credit or not sufficient collateral as well as providing TA.

So these are all nontraditional products. It cannot compare. In my days in a commercial bank, I could not have made these loans, because it is out of the box. But you have to design products based on market needs. And we are making a huge difference, and not only am I talking about predatory lending. We have refinanced a lot of small businesses that accessed FinTech loans because the interest rate was so high they did not even know what they were getting into. They were getting like 16 percent, and we have reduced the interest rate way down, less than 6 or 7 percent, because we are disclosing our rates and we are hoping they understand the difference between a CDFI product or a mission-based lender and a FinTech.

So definitely we are making a lot of loans and making a difference in our community in Baltimore.

Senator VAN HOLLEN. Well, thank you, and as you mentioned in your testimony, you provide that important technical assistance, get to know your customer, and you spend that time and invest the effort there. Back in your experience at a commercial bank, what

would be the response from the bank if you said you had to spend all that time providing that technical assistance?

Mrs. BRUCE. Of course, I mean, it was not allowed because of so many reasons. At a commercial bank you are there to make credit decisions, not to provide technical assistance. So that is another big difference between a CDFI and a commercial bank. Size with smaller loans under \$250,000, it was all credit score and automatic credit, so you would not even talk to these small businesses, because it was a 1-800 number. So they would not even know the bankers. If they go to a branch it is more of a retail.

And so this is a big difference, because small businesses really do not know what they need. You have to help them to structure the deals. So with CDFI, our TA helps them to structure the deals or the loans based on their needs. So we put a whole lot of emphasis on technical assistance before they receive the loan, and definitely it is not allowed in a commercial bank because of conflict. We are doing it at a CDFI as a mitigant for the credit, and enhances the credit because they are understanding the type of loans and products that we are offering. So it is a big difference, and I am happy now with our CDFI, because I have a passion for doing that, and working with people and not just numbers or telephone.

So this is a big difference, and we need capital. We need capital to help to provide more TA, but that is the funding that is not available, so definitely it is like doing pro bono services right now. So not only do we need investment capital for loans, lending capital, we need grant capital to cover our overhead and operations to provide more TA pre and post. So thank you, Senator, for asking.

Senator VAN HOLLEN. Thank you. And I will be talking to the Chairman and Ranking Member about seeing whether we can provide some of that capital to the nonbank CDFIs that we are providing to the bank CDFIs.

Mrs. BRUCE. That would be great. Thank you very much, Senator.

Senator VAN HOLLEN. Thank you.

Chairman BROWN. Thank you, Senator Van Hollen. I believe that Senator Sinema is joining us by phone, from Arizona. Please proceed.

Senator SINEMA. That is correct, and thank you to Ranking Member Toomey for holding this hearing, and thank you to our witnesses for joining us today.

Arizona small businesses are the backbone of our State's economy, and before this pandemic hit, small businesses in Arizona employed 1.6 million workers, more than half of the State's workforce, and created \$71.3 billion in annual wages and income for those employees.

But today is a different story. The pandemic has left Arizona's small businesses struggling to keep their doors open. Among those hardest hit are Arizona's local and independent restaurants. Now Arizonans know it, which is why so many of us have stepped up and done our part to support them. Like many other Arizonans, I try to get carryout from my favorite restaurants a few times a week, and we do this with the hope that they will still be there on the other side of the pandemic, when we can safely gather, enjoy great food and drink, and make memories with those we love.

But Arizonans expect Congress to do more than cross their fingers and hope, which is why last June I teamed up with Senator Wicker from Mississippi to introduce the Restaurants Act. Our bill, which earned the support of a majority of Senators, establishes a Restaurant Rescue Plan to provide local restaurants the funding to rehire workers and stay afloat during the pandemic. And I am delighted at the grassroots momentum and strong bipartisan support we have seen behind this important legislation.

A few weeks ago, the full Senate took a vote on our Restaurant Rescue Plan and support it 90–10. So, Senator Wicker and I are proud to have earned that support and achieve that significant milestone, and we are going to keep working until it is signed into law.

Now, Mr. DeLoss, I want to thank you for being here today. In preparing for this hearing, I learned that your restaurants are deliberate about providing employment opportunities to adults who have experienced homelessness, live in poverty, or were recently incarcerated. As a child, I experienced homelessness, so I want to thank you for being a leader who recognizes everyone's dignity and their ability to contribute to society. Arizonans know that a good job is transformative in helping people build better lives for themselves and their family.

So, Mr. DeLoss, could you briefly summarize the business decisions you made at the start of the pandemic and how it affected your company financially.

Mr. DELOSS. Thank you, Senator. Yeah, you know, as I shared in my opening statement, our priority was our team's stability. As a business, we ultimately know that if we invest in the personal stability of our team it will yield professional growth and stability.

And so when the pandemic hit, although we were getting caught and broadsided by kind of countless curve balls, just associated with COVID and the loss of private investment capital, we wanted to make sure that our team had someplace to come back to. So we did choose to close down our restaurants, and we used the discretionary resources from the product that was still in our walk-in cooler to discretionary spending, to ensure that we could cover our team's basic needs in advance of assistance kicking in.

If you will all remember, at that point many people displaced by the pandemic were waiting four to 6 weeks to receive emergency assistance, because of the barrage of demand that hit Federal resources and State resources.

And so we made that choice to close down and deeply invest in our team, and to see a 90 percent recall rate upon reopening, that was still alongside of emergency assistance, particularly for a group of people that have so many stereotypes and judgments about their work ethic against them, was a huge testament to our success, and folks believe that our team has a competitive advantage and strength.

Senator SINEMA. Well, thank you. You and your team have been through some difficult challenges. Now, as you know, our Restaurant Rescue Plan would provide grant funding to help you recoup some of the losses that you experienced as a result of being closed. It would use your 2019 revenues as a benchmark.

So what possibilities would this plan enable for you, and how would the grant empower you to advance the values of your business?

Mr. DELOSS. For us, additional grant funding and support allows us to get back onto the growth trajectory we were on before. And so, you know, I spent years in my early professional life as an investment bank analyst, studying markets and understanding what this looked like, and the reality of COVID is the predators were abundant. We had multiple offers to purchase our company at about 20 percent of the value we had pre-COVID, because there was blood on the water.

And so for us, we lost a complete growth trajectory for building more transformative jobs. And so additional funding yields the opportunity for us to get back on track and make more transformative change in the community that sustainably moves people into livable wage rolls versus welfare rolls, which is good for everybody.

Senator SINEMA. Thank you. Mr. Chairman, I see that my time has expired. I do have a question for Ms. Milano, but I will just submit it. And with that I yield back. Thank you.

Chairman BROWN. Thank you, Senator Sinema. Senator Ossoff from Georgia.

Senator OSSOFF. Thank you, Mr. Chairman. I appreciate it. Thanks to our panel. Just to open, I want to express the eagerness with which I believe many of us approach the Senate's consideration of this COVID-19 relief package, which has overwhelming bipartisan support among the public, the normal partisan tone of deliberations in Congress notwithstanding. This legislation is supported by approximately three-quarters of the American public, as those living in the real world recognize the vital need for direct economic relief for households, significant investments in the public health effort, vaccine supply and distribution. And this hearing is a vital opportunity for this panel to hear from leaders in the small business community and eminent scholars, thinkers, and analysts about how we can shape policy to help small businesses in a way that is effective, fast, and equitable.

I would like to ask you a question, please, Mrs. Bruce, about equitable access to capital and to financial relief. Can you please explain for the panel what are the factors that, even in normal times, impair access to capital for Black and minority-owned businesses, and that through this crisis have also made it more difficult for Black and minority-owned businesses to access emergency relief and credit. Thank you.

Mrs. BRUCE. Yes. Thank you, Senator, for asking that question. Based on my 30 years' experience in the industry of working in banking and finance for many years, some of the issues that the Black and Brown communities experience, especially from the traditional investment opportunities, it is because there is just a lot of redlining. Let's be real about this. In terms of the Black and Brown community redline, the perceived risk is already determined before the actual investment. And that is one.

But other issues are with small businesses you need to create products that will cater to the needs of the market. It is not a one size fits all. So in terms of the minority communities, there are a

lot of traditional disinvestments as well as prejudgment on what people are capable of doing. But also there needs to be a lot of trust. People do business with people they trust and know, and that is what banking is. It is more for personal relationships.

So most of the large banks do not have the relationships with borrowers, so borrowers get turned down very fast because the products do not really cater to their needs, which is fine. It is a different type of institution. But in terms of us, with CDFIs, we need to have access to those flexible, long-term capital to lend to small businesses in the Black and Brown communities, because we know the market and they know us. But it is difficult for a national bank to do that, because it is a different type of lending, which I do understand too.

But in terms of you cannot put all of the small businesses in one box, and they have special needs because they may have limited credit or issues because of disinvestment, and also they need long-term products, and second, they need a lot of equity-like investments, like the EQ2's. So this recent project, the Emergency Capital Investment Program, that Congress just passed, was not given to nonbank CDFIs, so we hope that this Committee will consider reallocating resources, but we need more flexible, long-term capital, because we are not a bank. We need to create products to meet the needs of small businesses.

Thank you for asking, Senator.

Senator OSSOFF. Thank you, Mrs. Bruce. I appreciate it.

With my remaining time, could you elaborate a bit on what policy measures this panel and the Congress might consider in order to ensure that monetary expansion and fiscal stimulus might not flow so predominantly through the largest investment banks in the country, but the regional banks, credit unions, and CDFIs who have those personal relations with small businesses in the community?

Mrs. BRUCE. Well, I mean, part of the policy that could be set is making sure that you have a reporting mechanism to report directly to the Committee or to Congress, because you need a system in place to mitigate whatever the risks it may take to make sure it goes on to the people that need the money.

So, of course, reporting would be important, but also if we educate our customers ahead of time, like providing comprehensive TA, it will help them report on the usage of the funds. So policies are made, but it can be implemented if you have people who are on the ground and have relationships with the borrowers, because it is necessary in order to have the type of trust and to make sure that we have compliance with the reason for which the funds were given. And sometimes it is not intentional, but things happen, but it is because of lack of education or knowledge, and misunderstanding. So you need systems in place to mitigate that risk.

Senator OSSOFF. Thank you, Mrs. Bruce, thank you to our panel, and thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Ossoff. Before closing I have one more question for Mr. DeLoss. We have heard a lot of concerns about raising the minimum wage to a living wage over a number of years. As you know, the \$15 takes effect over 3 or 4 years.

Do you agree? How would this affect your restaurant business? Mr. DELOSS. Yeah, of course minimum wage is a complicated issue, as a business owner. I appreciate the sentiment of expanding this over a multiyear period. What I can share is what I know from my experience. We push to get people up and over that \$15-an-hour wage as quickly as we can, and in a \$15 wage we are talking about, you know, \$30,000 worth of gross income a year, so it is not a tremendous rate. But the reality is all of a sudden when you start getting people up there, their transportation, their housing stability, their food stability, their child care stability, all [inaudible] and our folks can show up to work with their head in the game and do an excellent job for us.

And so regardless of how we come to the solution, and what a compromise looks like legislatively, I know it is in our best interest to just keep moving people's wages up. And we have shown it time and time again that it works at our business. And so while I appreciate minimum wage is a very partisan issue, poverty is far from a partisan issue, and the reality of the cycle of poverty is that is more disruptive to a business than really anything else we are discussing.

And whether it is in employee retention, employee productivity, satisfaction, it is incredibly disruptive to have a team that is turning over 100, 150 percent a year, which is the average going rate in our industry. And so to operate as a business that has less than 40 percent turnover on an annual basis, we are sustaining jobs and productivity that ultimately passes through to our customers in a meaningful way.

So I appreciate the intention and the effort around the legislation. I know it is a complicated issue. But I ultimately know that it is in the best interest of people to increase their wages.

Chairman BROWN. Thank you for the thoughtful answer. I know there are success stories out there like Ms. Ritchie's, and your success story is inspiring, and I know that the Ranking Member thought so too. But for most Americans, the current minimum wage is not enough to pay their rent, pay their bills, support their families. We need to make sure every worker in America has a living wage. If you believe in the dignity of work, whether you punch a clock or swipe a badge or work for tips, every worker should have a minimum wage. It is a living wage. It is a floor, not a ceiling, so that workers can continue to earn higher wages.

Thank you to the whole panel. For Senators who want to submit questions for the record, these questions are due 1 week from today, on Thursday, March 4th. For our witnesses, please get answers to us within 45 days, to any questions you submit.

And I will just close with this. Thank you all for testifying. Entrepreneurs like you are proving when we invest in workers, businesses are profitable, they grow, growth benefits the whole community. We need to get workers in Columbus and in Butler County, Pennsylvania, Ms. Ritchie, and all over the country back on the job safely. That we can agree on.

We need to use every tool we have to do that, including restarting the successful State Small Business Credit Initiative. Thank you for your comments on that, Ms. Milano. The money goes to States to create their support programs. It is targeted. It goes to

the hardest-hit States, based on employment data, and gives them the flexibility to fund a range of support programs, including venture capital. We heard from Mr. DeLoss how important venture capital can be to small businesses, like his in the middle of the country, often get overlooked in places like New York and San Francisco. And we know it has been a success. It has generated more than \$8 in private capital for every \$1 in the program. Mrs. Bruce has illustrated that with her answer to Senator Van Hollen, his question.

We heard the same out-of-touch talking points today that we have heard for a year. Politicians in Washington saying everything is fine, the recovery is great, the economy is growing, and somehow we do not need a massive response to a massive crisis. Of course this is a big rescue plan. It is \$1.9 trillion. But it is a big crisis. It is an economic crisis. It is a public health crisis. It has effected pretty much all aspects of everyone's lives. We are rising to meet this moment. This panel helps us do that. We need to deliver for the people whom we serve.

Thank you all, and the Committee is adjourned.

[Whereupon, at 11:14 a.m., the hearing was adjourned.]

[Prepared statements and responses to written questions supplied for the record follow:]

PREPARED STATEMENT OF CHAIRMAN SHERROD BROWN

One of the most important things we can do on this Committee is give a voice to all the people who haven't had enough of one in their Government.

Last week we began by hearing from Ohioans and witnesses from around the country who don't have corporate lobbyists, but who understand their communities, and who know the challenges regular people are facing right now.

Today we will continue that work, hearing from small business owners and small lenders from Columbus and Baltimore and Pennsylvania. Just like American workers, these are businesses that are often left behind or steamrolled over by the largest corporations and the biggest banks, and their allies in Washington.

That Wall Street system too often excludes small and minority-owned businesses, and only measures success by the stock market.

But the Dow doesn't tell us much about how a restaurant in Columbus or an early learning center in Baltimore and their workers and their customers are doing.

These entrepreneurs are an important measure of the real state of our economy.

Small businesses create jobs and economic growth in our communities—in the heartland, in Black and Brown communities, places that often don't get a lot of outside investment.

The stakeholders in these businesses aren't nameless, faceless shareholders—they're our neighbors, family members, the people you see at school and at the grocery store and at church.

And we will not have a strong recovery unless we reach these businesses, and the lenders and organizations that support them.

These businesses know how important it is to have local lenders and institutions that understand small business needs and serve their communities. It's the community development financial institutions (CDFIs) and minority depository institutions (MDIs) that help them fight to save their businesses when the big banks turn them away, or were never an option in the first place.

People in Ohio and across the country remember how after the last economic crisis in 2008 and 2009, the biggest corporations recovered, while large swaths of the country were left behind.

Many of these same communities have watched for decades as factories closed, investment dried up, and storefronts were boarded over.

They're also often places that have never had the investment they should—because of discrimination, because of redlining, because of decades of policy that funneled resources and jobs away from entire neighborhoods and towns.

In all these places, so many Americans know what it's like to wake up one day, and realize the only jobs to be had are at a big-box chain for rock-bottom wages, with no health care, no paid sick days, and no power over your schedule.

We cannot allow that to be our future.

We need to invest everywhere: in the places that have seen investment dry up, and in places that were overlooked, discriminated against, or outright preyed upon to begin with.

If we allow another Wall Street-first recovery—where the big guys get taken care of, while small businesses fight over the scraps—we will end up with more hollowed-out towns and neighborhoods, and more workers trapped in a broken corporate business model.

President Biden understands that. And his rescue plan will get help to these businesses and the communities they support around the country.

The number one thing we must do to support all small businesses is to get every American vaccinated, as quickly as possible.

That's how we protect workers, and it's how we ensure customers feel safe going shopping and going to restaurants and going to the movies and concerts and barber shops again.

Our rescue plan will fund the massive mobilization we need to make that happen. And it will get more financial support to these small and minority-owned businesses, and the community lenders that support them.

In addition to continuing to fund and improve the PPP and EIDL programs, we're going to restart a successful Treasury program that will get more small businesses access to capital. And we will make sure mission-based lenders like CDFIs and MDIs have what they need to serve their communities.

Our work, though, cannot end with this emergency bill.

We need to invest in these entrepreneurs and their communities for the long term. We need to rethink our economy, and how we value the people and places it's made up of.

When we put communities, not corporations, at the center of our policy, we'll get more businesses that actually value their workers, and measure success the same

way families do—not in quarterly earnings reports. We'll get more entrepreneurs building something for the long-term, something with roots.

People are proud of where they come from. And they want to see the Main Streets they love thriving again.

Our witnesses today know that. They know the vibrancy and the dynamism and the diversity of working-class towns and neighborhoods all over this country.

We need get to work to invest in them, and ensure that those places, America's Main Streets—not Wall Street—are at the center of our recovery, and are the building blocks of a better economy.

PREPARED STATEMENT OF WATCHEN HARRIS BRUCE

PRESIDENT AND CEO, BALTIMORE COMMUNITY LENDING, INC.

FEBRUARY 25, 2021

Chairman Brown, Ranking Member Toomey, and distinguished Members of the Committee, thank you for the opportunity to appear before you today. My name is Watchen Harris Bruce, and I serve as President and CEO of Baltimore Community Lending (BCL). BCL is a Community Development Financial Institution (CDFI) located in the heart of Baltimore with the dedicated mission to support the revitalization and strengthening of targeted neighborhoods through innovative and flexible financial resources. BCL's services include mini-perm mortgages and construction loans, in addition to non-real estate small business lending that may not require collateral.

Baltimore is home to approximately 12,500 businesses, of which 11,700 or 93 percent are small business firms with fewer than 50 employees, with 6,500 of these businesses having fewer than five employees. Approximately 53 percent of these businesses are minority-owned, and women own 47 percent. Prior to COVID-19, many of these businesses faced significant challenges accessing needed capital—due to business size, race, gender, and the inability to provide adequate collateral. As a result, many businesses have turned to more expensive capital resources, including but not limited to high-interest credit cards and online lenders, many of whom are predatory and finding a larger foothold in our city. These trends were concerning prior to the pandemic, and COVID has exacerbated the already existing lack of affordable capital conditions in our community.

That said, in my testimony today, I would like to address the substantive issues and concerns facing my CDFI in Baltimore and CDFIs like mine around the country. As an African American led CDFI, BCL is a member of the African American Alliance of CDFI CEOs (Alliance). The Alliance is a nonprofit coalition comprised of over 46 CDFIs covering 50 States, with the purpose of strengthening the operational and fiscal capacity of Alliance members and empowering their organizations to deploy solutions at scale to build sustainable wealth, equality, and just quality of life for low- and moderate-income Black populations and communities across the U.S. Central to the Alliance's mission is the objective of closing the Black wealth gap—through CDFI practice and advocacy, ensuring access to capital and continued growth of African American businesses and the Black economy.

CDFIs can play a significant role in narrowing the racial wealth gap and have been an effective tool in generating economic development in low-income and African American communities. However, African American led CDFIs have been significantly underfunded, greatly impacting our ability to stimulate and grow local Black economies that have consistently experienced disinvestment and underinvestment for centuries.

According to a recent study conducted by the Hope Policy Institute, covering the period between 2014 to 2017, the assets of White led CDFIs grew by \$21.8 billion, while the assets of minority led CDFIs grew by just \$682.5 million.¹ Another study found that when nonprofits provide support within Black communities, agencies headed by Black executives experience a 24 percent smaller organizational budget than nonprofits led by White executives.²

This is an unfortunate result and directly impacts capital liquidity and our ability to successfully fund businesses and economic development in the communities we serve. Data show that when lenders, technical assistants, business coaches, housing and credit counselors, loan officers, and community lenders reflect the identities and

¹Closing the CDFI Asset Gap, Hope Policy Institute (2020).

²"Nonprofits Led by People of Color Win Less Grant Money With More Strings (Study)", *Chronicle of Philanthropy* (2020).

experiences of their non-White potential clients, the rate of funding, professional support, loan flexibility, and positive economic outcomes increase dramatically.³

In the recent COVID relief packages passed by Congress, this body ensured that the CDFI Fund (Fund) received additional appropriations, which is a big step in the right direction. However, in passing the Emergency Capital Investment Program (ECIP), a program which provides \$9 billion in investment capital targeting minority led CDFIs, low-income communities, and areas of persistent poverty, the legislation excluded nonbank CDFIs, leaving many of our organizations still void of needed investment capital. We believe it was the original intent that nonbank CDFIs not be excluded, and we ask that you consider opening additional authority and appropriations, specifically targeting minority led nonbank CDFIs, low-income communities, and areas of persistent poverty. Inclusion of nonbank CDFIs such as members of the Alliance and other CDFIs of color is needed and essential to implementing ECIP and will lead to greater program success. While minority-owned and other depository institutions and credit unions are a conventional start in reaching African American, low-income and underserved communities, nonbank CDFIs, particularly those led by communities of color, have consistently proven our ability to reach and successfully deploy capital with those communities that need it most.

That said, I would also ask that you look to the New Markets Tax Credit Program as another mechanism for directly reaching minority led CDFIs. As a former reviewer of the Program, I am concerned that many minority led and smaller CDFIs/CDEs may be excluded from receiving awards, not due to their lack of experience or ability, but because the Program scoring system prefers larger more tenured applicants. In theory, all other factors being equal, an applicant with 8 years of experience will score higher than one with 5 years of experience, and therefore receive the award. Many minority led and smaller CDFIs/CDEs, while having significant experience and capacity, may have less time in practice and will always lag in time when compared to older applicants. A possible solution for the Committee to consider is whether the Fund should preserve a portion of each allocation cycle for emerging qualifying CDFIs/CDEs. Greater participation of emerging CDFIs/CDEs and allocatees would directly impact underserved and low-income communities in rural and metropolitan areas when considering that CDFIs/CDEs embedded in targeted communities are often best positioned to understand the needs and priorities on the ground.

Thank you for the opportunity to provide testimony and share my views on these important issues. This Committee has consistently supported CDFIs and community and economic development in our Nation's rural and urban regions. We look forward to our continued work together and developing solutions for small businesses, affordable housing, and job creation. Thank you.

PREPARED STATEMENT OF JOE DELOSS

FOUNDER AND CEO, HOT CHICKEN TAKEOVER, COLUMBUS, OHIO

FEBRUARY 25, 2021

Thank you Chairman Brown and Ranking Member Toomey for inviting me to testify before the Senate Committee on Banking, Housing, and Urban Affairs. My name is Joe DeLoss, I am the founder and CEO of Hot Chicken Takeover; a small fast-casual restaurant chain based in Columbus, Ohio, and growing throughout the Midwest.

Though our business has an absolutely ridiculous name, it was built with a serious, transformative mission. I founded Hot Chicken Takeover to provide employment to those who've experienced significant adversity in their lives. Ranging from incarceration, to homelessness, to addiction, and to many things in between, our team is a diverse cast of players, all working collaboratively to be a best-in-class restaurant chain. We currently have 5 restaurants open and a sixth under construction. Our team will be approaching 200 people by year end.

This introduction, especially including mention of our employees' pasts, often garners warm, sympathetic responses from listeners. With that in mind, it's very important for me to distinguish that Hot Chicken Takeover is very far from a charity or cause—our business is strong because our people are strong. Though they have been overlooked by the greater employment market, our team has led Hot Chicken Takeover to countless awards, national exposure, and private investment by some

³Lyons-Padilla Sarah, Markus Hazel Rose, Monk Ashby, Radhakrishna, Shah Radhika, Dodson IV Norris A., Eberhardt Jennifer, *Race Influences Professional Investors' Financial Judgments* (2019).

of the greatest innovators in our industry. Hot Chicken Takeover is a for-profit business demonstrating the positive economics that can be generated from deeply caring for and investing in your team.

When COVID-19 struck in the United States, our leaders immediately concerned themselves with the stability of our team and community. With fear that restaurant sales would dry up completely, we made a choice to temporarily close our restaurants and move our team onto emergency assistance and unemployment benefits. This transition was far from smooth, leading our remaining team to build a make-shift case management practice to ensure our team members' needs could be met through our own discretionary resources while the Government unburied itself from such immense service demand. The other large consequence of the pandemic was the loss of \$2M of committed private investment capital, set to close the last week of March 2020.

Our remaining small team of leaders jumped into action to pivot our concept and ready ourselves for reopening. This effort included everything from safety and sanitation initiatives, to menu reconfigurations, to employee benefits, and to new technology integrations. Along the way, we were able to secure the first round of PPP funding, EIDL dollars, and several sympathetic investments from existing business partners. Without these supports, Hot Chicken Takeover would be a likely casualty of the crisis.

Thankfully, our restaurant concept was well positioned to serve a post-COVID customer and we began reopening locations in May 2020. With dining rooms closed to ensure the safety of our team and guests, we doubled down on carry-out and delivery business, doing our best to avoid the predatory fees and poor service models of many third-party vendors in our industry. We successfully recalled 90 percent of our team upon reopening and began hiring others displaced by the pandemic to accommodate our increased demand. Hot Chicken Takeover has since been able to stabilize financially with additional private industry investment and is cautiously approaching growth, intent on creating more transformative and meaningful jobs.

The COVID crisis is far from over for our company but we finally see a path forward for the concept and our team. And though Hot Chicken Takeover and its team have glimmers of growth on the horizon, we represent a small segment of an utterly decimated industry.

Assistance for our small businesses and employees remain critical for our communities to move forward.

Thank for this opportunity to share testimony. Thank you all for your service and leadership.

PREPARED STATEMENT OF JESSICA MILANO

BOARD MEMBER, SMALL BUSINESS MAJORITY

FEBRUARY 25, 2021

I would like to thank Chairman Brown, Ranking Member Toomey, and all of the distinguished Members of the Committee for inviting me to testify today.

I am currently a member of the Board of Directors of Small Business Majority, a national small business advocacy organization that empowers America's entrepreneurs to build a thriving and equitable economy, and a Senior Advisor to Calvert Impact Capital, a mission-driven financial services firm that has played a key role in helping structure several small business recovery funds since the pandemic began. I previously served as Deputy Assistant Secretary for Small Business, Community Development, and Housing Policy at the U.S. Treasury during the Obama administration where I oversaw the Small Business Lending Fund (SBLF) and the State Small Business Credit Initiative (SSBCI) programs responsible for providing credit to Main Street businesses after the financial crisis. I am appearing today as a private citizen and the views expressed here are my own and should not be attributed to any of the organizations I just mentioned.

Given my background, my testimony today focuses on the critical role small businesses play in our economic recovery. Small businesses are the foundation of our communities and the largest single source of new job growth in our economy. Over the last two decades, small and new businesses have been responsible for creating 2 out of every 3 net new jobs.¹ Importantly, these jobs are often the high-quality, higher-paying jobs that provide pathways to the middle class. Fully half our country's private sector workforce works for a small business. The pandemic has had a profound impact on communities across America but has been especially challenging

¹ Small Business Administration, "Frequently Asked Questions", June 2016.

for small businesses, particularly those owned by people of color, women, and immigrants. Pandemic restrictions and the decline in consumer demand has pushed many small businesses to the brink of failure and beyond. Rebuilding an inclusive economic recovery means ensuring small businesses have the tools and resources they need to come back stronger than before.

In my testimony today, I wish to discuss three important points:

- Many of the communities hardest hit by the pandemic have been communities of color;
- Despite significant Federal support, minority-owned businesses continue to experience challenges accessing capital; and
- Congress should reauthorize the State Small Business Credit Initiative to address these market gaps.

Let me discuss these in turn.

Many of the communities hardest hit by the pandemic have been communities of color.

Small businesses are the foundation of healthy, vibrant communities. They are the places we gather to share a meal and they provide the critical services we could not live without like the small local grocer, dry cleaner or neighborhood coffee shop. Whether in rural towns, urban neighborhoods, or middle class suburbs, thriving successful small business owners serve as role models in their communities and mentors to the next generation. They are an important source of jobs and provide tangible examples of the diverse pathways that can be taken to achieving the American dream. It is impossible to discuss economic opportunity in America without addressing how to support small businesses.

The effects of the pandemic on small businesses amid forced closings, modified reopenings, and weakened demand, are well documented and well understood by this Committee. I would however like to draw attention to the disproportionate impact the pandemic has had on communities of color. Many of the communities hardest hit by the pandemic have been communities of color. Research from the NY Fed released in August found Black-owned businesses are more likely to be located in counties with higher incidence of COVID-19 and also are highly concentrated in retail, restaurants, and other service industries most affected by shutdowns and social distancing.² To make matters worse, these businesses often had weaker cash positions and weaker bank relationships before the pandemic leaving them particularly vulnerable to the economic shock that followed.³

While the first round of the Paycheck Protection Program (PPP) is estimated to have reached up to 74 percent of small businesses nationally,⁴ “these loans reached only 20 percent of eligible firms in States with the highest densities of Black-owned firms, and in counties with the densest Black-owned business activity, coverage rates were typically lower than 20 percent.”⁵

Given this data, it is unfortunately not surprising that more entrepreneurs of color report they may close their business in the next 3 months. According to recent polling from Small Business Majority, nearly 1 in 3 Black and Latino business owners report they may be forced to temporarily close compared to 21 percent of White business owners.

An additional 18 percent of Black and Latino entrepreneurs report they are likely to permanently close their business in the next 3 months, compared to 14 percent of White small business owners.⁶

The impact of losing these businesses is two-fold: first on the business owner themselves, and second on the communities they serve. While vaccines have brought hope social distancing restrictions may ease this year, it is hard for Main Streets to come back to the bustling centers they were before the pandemic when so many businesses have shuttered permanently. Preventing this means addressing the market gaps that exist in accessing capital.

²Mills, Claire Kramer and Jessica Battisto, “Double Jeopardy: COVID-19’s Concentrated Health and Wealth Effects in Black Communities”, Federal Reserve Bank of New York, August 2020.

³Ibid.

⁴U.S. Census Bureau, “Small Business Pulse Survey: Tracking Changes During The Coronavirus Pandemic”, Data as of January 10, 2021, available at: <https://www.census.gov/data/experimental-dataproducts/small-business-pulse-survey.html>.

⁵Mills, Claire Kramer and Jessica Battisto, “Double Jeopardy: COVID-19’s Concentrated Health and Wealth Effects in Black Communities”, Federal Reserve Bank of New York, August 2020.

⁶Small Business Majority, “Scientific Opinion Poll: Small Businesses Continue To Face Closures in 2021”, January 27, 2021.

Despite significant Federal support, minority-owned businesses continue to experience challenges accessing capital.

The Federal Government's most significant source of relief to small businesses during the crisis has been the Paycheck Protection Program (PPP), which provides low cost, forgivable loans to support payroll initially but today can be applied to other qualified business expenses as well. This relief surely helped prevent higher unemployment and helped many larger, employer small businesses survive the last year.

What we learned from PPP is that businesses that were underbanked prior to the pandemic had trouble accessing these loans. Non-employer firms, like the self employed, and small business owners of color were much less likely to have a business banking relationship prepandemic—31 percent of Black-owned businesses, 28 percent of AAPI-owned businesses, and 26 percent of Latino-owned business owners lacked business banking. When the pandemic hit, emergency programs⁷ implemented by the SBA favored national 7(a) lenders and their clients. While well intentioned, smaller community lenders that had not previously done a high volume of SBA loans found it confusing or difficult to utilize the program, leaving their clients shut out. And businesses without strong banking relationships precrisis were even further at the back of the queue.⁸

According to Small Business Majority's polling, roughly 4 in 10 small business owners had not obtained any capital prepandemic like loans or lines of credit from any lending institution including 31 percent of Black-owned businesses and 38 percent of Latino owned businesses. These loose ties to the banking sector meant relatively few small business owners surveyed by Small Business Majority were able to secure funding through Federal small business relief programs. While roughly 1 in 3 applied for a PPP loan, only a third received the full amount requested, and the number was even lower for minority-owned businesses—23 percent of Black-owned businesses, 23 percent of AAPI-owned businesses and 27 percent Latino-owned businesses received the full amount.⁹

This data is not a criticism of PPP but highlights the challenges policymakers face in helping capital reach businesses and communities historically underserved and underbanked by traditional lenders. PPP also does not support new businesses. Because of the program's initial focus on reducing unemployment and supporting businesses impacted by the pandemic, new businesses formed in the last year are not eligible. However, a silver lining of the pandemic has been the number of new business starts.

According to data from the U.S. Census Bureau, compiled by Economic Innovation Group, "In 2020, there was an explosion in new business applications, reaching nearly 4.5 million by year's end—a 24 percent increase from 2019 and 51 percent higher than the 2010–19 average."¹⁰ It is too soon to tell how many of these 10 small businesses will survive but the data is encouraging because it reverses a decades long decline in new business formation and shows how entrepreneurship can help lead the way out of the crisis.

The next phase of the recovery will be to move beyond the short-term relief PPP provided to focus on small business support that complements PPP by helping to address these credit gaps and provides incentives for innovative private financing and flexible local support to help build vibrant small business ecosystems that are stronger than before.

Congress should reauthorize the State Small Business Credit Initiative to address these market gaps.

As the Committee hears proposals to help rebuild Main Street small businesses, I'd like to recommend reauthorization of the State Small Business Credit Initiative (SSBCI) and share my experience working on the program. SSBCI complements other Federal programs by filling market gaps these programs do not cover, such as guaranteeing loans from CDFIs, financing nonprofits, and supporting equity financing for high-growth potential businesses. It also helps build local lending and investment capacity to help support historically underserved businesses.

⁷Small Business Majority, "Scientific Opinion Poll: Small Businesses Struggling To Access Capital, Harming Their Financial Recovery," February 17, 2021.

⁸*Wall Street Journal*, "PPP Small Business Loans Left Behind Many of America's Neediest Firms", June 17, 2020.

⁹Small Business Majority, "Scientific Opinion Poll: Small Businesses Struggling To Access Capital, Harming Their Financial Recovery", February 17, 2021.

¹⁰Economic Innovation Group, "The Start Surge? Unpacking 2020 Trends in Business Formation", February 8, 2021.

SSBCI was funded with a one-time authorization of \$1.5 billion through the Small Business Jobs Act of 2010. It was a new program and a true experiment borne of the need to jump start small business lending and investment during the financial crisis. The program worked by allowing States to set-up their own small business support programs targeted to local economic needs. It was so flexible there were just two primary requirements: (1) States had to establish at least one from a list of 5 possible credit or equity programs; and (2) States had to provide a plan for leveraging \$10 of new private sector small business financing for every \$1 of SSBCI funds expended.

Unlike other Federal programs, like those administered by the Small Business Administration for example, it was not a one-size-fits-all approach with uniform national requirements. Some communities chose to target microbusinesses while others targeted manufacturers or high-tech companies. Each State has its own needs and, with them, developed a unique set of partners to administer the programs. In total SSBCI funded 154 programs nationwide, over 80 of them new, and dedicated \$1 billion to lending programs and over \$400 million to venture capital programs targeting investment in early stage businesses.¹¹

The program succeeded in providing capital to very small and young businesses. Eighty percent of SSBCI loans or investments supported businesses with 10 or fewer full-time employees and nearly half the supported businesses were less than five years old. It also addressed capital needs in low- and moderate-income (LMI) areas, 42 percent of SSBCI loans or investments were made to businesses in LMI communities.¹²

This was achieved because the program partnered with often smaller community lenders and community development financial institutions (CDFIs) that exist to meet the unique needs of historically underbanked communities. The CDFI industry has operated for more than 40 years to serve these businesses with capital and advisory services. Today, CDFIs are on the front lines of the current health and economic crisis and are often the first touchpoint for a struggling local business owner seeking help.

During the last year, some States have sought to leverage CDFIs ability to reach historically underbanked and minority-owned small businesses by capitalizing their own small business support programs. In May New York launched the New York Forward Loan Fund, a \$100 million fund managed by Local Initiatives Support Network (LISC), a CDFI that works with other New York-based CDFIs to provide low cost working capital loans to small businesses and nonprofits with fewer than 50 employees and that have been negatively impacted by the pandemic. And in November California followed with the California Rebuilding Fund, a public-private partnership that drives capital from private, philanthropic and public sector resources to CDFIs so that they can extend affordable, flexible capital to small businesses they serve. Both programs are leveraging CDFIs target market and mission to reach small businesses that were unable to access other Federal assistance programs.

To date, the programs have reached over 1,000 of the hardest to reach small businesses across their States, with 77 percent loans to businesses either located in a LMI census tract or owned by a historically underbanked population including businesses owned by women and people of color. These businesses are the smallest of the small; 76 percent of businesses that have received loans have 5 or fewer full-time employees and 21 percent of businesses are sole proprietorships. The current proposal to reauthorize SSBCI at \$10 billion in funding would help make these programs available in more States and help more small businesses access affordable loans beyond March 31, 2021, when PPP is set to end. Also, by providing flexible working capital and other forms of small business credit and investment products SSBCI would address the gaps left by PPP and help more small businesses keep the doors open so when restrictions are lifted they are ready to welcome back customers and are stronger and more resilient than before.

Conclusion

The pandemic has touched all of our lives and many of us look forward to the day we can gather together and enjoy the interaction of a crowded Main Street again. In order to build the communities we want to live in and support economic opportunity and inclusivity for ourselves and our neighbors, we need to support our small businesses and ensure they have the resources to retool, reopen, and thrive.

¹¹ U.S. Department of the Treasury, "State Small Business Credit Initiative: A Summary of States' 2016 Annual Reports", July 24, 2017.

¹² Ibid.

PREPARED STATEMENT OF JOEL GRIFFITH

RESEARCH FELLOW, THE HERITAGE FOUNDATION

FEBRUARY 25, 2021

Thank you Chairman Brown, Ranking Member Toomey, and other Members of the Committee for the opportunity to testify today. My name is Joel Griffith. I am a Research Fellow in Financial Regulations at The Heritage Foundation. The views I express in this testimony are my own and should not be construed as representing any official position of The Heritage Foundation.

This testimony will briefly examine economic conditions stemming from the COVID-19 pandemic and the economic shutdowns before examining the proposed latest round of COVID relief. This legislation provides for billions more of Federal loans and grants despite the fact that billions of previously approved aid remains available. Some of these funds will flow to a program—the State Small Business Credit Initiative—with a history of problems. This Federal aid crowds out private sector investment and ignores the fact that small businesses by and large do not report a drying up of credit. The legislation also provides for a doubling of the minimum wage which would harm small businesses and slow economic recovery. Re-opening the economy is the best relief for small businesses, as evidenced by the divergent economic results from State to State.

The data certainly bear out the economic decline stemmed from Government-mandated closures and people responding to what they heard from some public health officials.

For the first time in our Nation's history, Governments intentionally suppressed the supply of goods and services. Likewise, restrictions on consumer activity artificially suppressed demand. An historic plunge in the production of goods, provision of services, and private investment resulted in the second quarter of 2020.¹

The robust recovery of the third quarter and the much slower growth in the fourth quarter closed more than two-thirds of the sharp economic contraction. But much damage remains, with 9.9 million fewer individuals employed² and hundreds of thousands of businesses closed forever, including more than 100,000 restaurants.³

It's not for want of Government spending that the economy still has not fully recovered. The Federal Government borrowed, printed, and spent trillions of dollars in an effort to cushion the economic downturn. Total Federal spending of \$6.551 trillion in fiscal year 2020 exceeded the prior year by \$2.1 trillion⁴—an enormous increase of more than \$24,000 per family of four.⁵

Rather, Government-mandated closures and public perception of the crisis continue to deter investment and suppress economic activity. The skyrocketing Federal debt and rapidly expanding central bank balance sheet creates the additional risk of a monetary crisis.

Congressionally Approved Aid Remains Unused

Congress has already approved more than \$1 trillion in aid intended for smaller businesses, including more than \$800 billion through the Paycheck Protection Program (PPP).

Much of this aid is still available. Of the additional \$284 billion provided for PPP in the December stimulus package to be disbursed through March, only 36 percent

¹The Nation's economy in the second quarter of 2020 shrank at a 31.4 percent annualized rate. Personal consumption dropped at a 33.2 percent annualized rate. Consumption of personal services dropped 41.8 percent annualized. Table 1.1.1, Bureau of Economic Analysis, <https://apps.bea.gov/iTable/iTable.cfm?reqid=19&step=2#reqid=19&step=2&isuri=1&1921=survey> (accessed February 24, 2021). By the middle of 2020, the economy had contracted by 10.2 percent from its peak. Federal Reserve Bank of St. Louis, Series GDP, <https://fred.stlouisfed.org/series/GDP> (accessed February 24, 2021).

²Federal Reserve Bank of St. Louis, Series PAYEMS, <https://fred.stlouisfed.org/series/PAYEMS> (accessed February 24, 2021).

³"Restaurant Industry in Free Fall; 10,000 Close in Three Months", National Restaurant Association, December 7, 2020, <https://restaurant.org/news/pressroom/pressreleases/restaurant-industry-in-free-fall-10000-close-in> (accessed February 24, 2021).

⁴Congressional Budget Office, "Historical Budget Data", February 11, 2021, <https://www.cbo.gov/system/files/2021-02/51134-2021-02-11-historicalbudgetdata.xlsx> (accessed February 24, 2021).

⁵State and local governments increased spending by 15.4 percent from 2015–2020 and in the depths of the recession in Q2 of 2020 actually spent 1.2 percent more than the prior year. Federal Reserve Bank of St. Louis, Series SLEXPND, <https://fred.stlouisfed.org/series/SLEXPND> (accessed February 23, 2021).

had been obligated as of February 7.⁶ Likewise, the December package provided \$12 billion to Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs) to lend.

This legislation provides \$15 billion more for the Targeted Economic Injury Disaster Loan Program. But as of February 12, none of the \$20 billion appropriated for Economic Injury Disaster Loans had been obligated.⁷

The State Small Business Credit Initiative (SSBCI): A Troubled Program From the Past

On top of all the prior spending—including the hundreds of billions of approved aid which remains to be spent—this legislation proposes \$10 billion to restart the State Small Business Credit Initiative (SSBCI). This State Small Business Credit Initiative (SSBCI) funds State programs that provide Government loan guarantees and Government loan purchases to businesses defined as “small.”⁸ Like the PPP program, a small business can include those with 500 full-time employees. This Government favoritism based on company size and business sector partially replaces decisions over allocation of capital made by individuals and investors with the preferences and dictates of bureaucrats often for the benefit of the politically favored.

Numerous problems plagued this program in the past.⁹ For instance, the Treasury’s Office of Inspector General (OIG) identified noncompliant expenditures related to California’s SSBCI loans which “constitute a ‘reckless’ misuse of funds.”¹⁰ The OIG also identified “reckless misuse” of funds and “conflicts of interest” within the New York program related to one of the venture capital firms participating in the State’s SSBCI program.¹¹ These States were not alone. The OIG found only four States to be in full compliance with the program.

Is this Government-provided capital actually filling a funding need of small businesses not already met by the market? The data strongly suggest no. The \$1.5 billion in SSCBI funds in the Small Business Jobs Act of 2010 was expected to generate \$10.5 billion in new small business financing by State Government lending programs. This is just a small fraction of the total value of the \$644.5 billion small business loans outstanding in 2019 (the most recent year available).¹²

By the time SSBCI delivers these resources, the economy will be even further rebounded. Indeed, that seems to be the entire point. Under this legislation, SSBCI would not be limited to the duration of the pandemic. Instead, SSBCI funding would be available for years after the expected duration of the pandemic. This operates as a slush fund for politicians across the Nation—a purpose detached from combating the economic fallout from the shutdowns.

Small Businesses Are Being Serviced by the Credit Markets

It’s a misnomer that credit markets are not providing funds to small businesses. Most small businesses are saying they are generally not looking for more credit.¹³ Only 3 percent of respondents in a recent National Federation of Independent Business (NFIB) survey reported their borrowing needs were not satisfied. The survey also reported the following: “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

⁶ U.S. Small Business Administration, “Paycheck Protection Program (PPP) Report: Approvals through 2/15/2021”, <https://www.sba.gov/sites/default/files/2021-02/PPP-Report-Public-210215-508.pdf> (accessed February 24, 2021).

⁷ U.S. Small Business Administration, “COVID-19 EIDL Loans Report 2021”, February 16, 2021, <https://www.sba.gov/document/report-COVID-0919-eidllans-report-2021> (accessed February 24, 2021).

⁸ U.S. Department of the Treasury, State Small Business Credit Initiative, <https://www.treasury.gov/resource-center/sbprograms/Pages/ssbci.aspx> (accessed February 24, 2021).

⁹ Congressional Research Service, “State Small Business Credit Initiative: Implementation and Funding Issues”, April 23, 2018, <https://www.everycrsreport.com/reports/R42581.html> (accessed February 24, 2021).

¹⁰ U.S. Department of the Treasury, OIG, “Small Business Lending Fund: California Needs To Improve Its Oversight of Programs Participating in the State Small Business Credit Initiative”, May 24, 2012, p. 3, <https://oig.treasury.gov/sites/oig/files/Audit-Reports-and-Testimonies/OIG-SBLF-12-003.pdf> (accessed February 24, 2021).

¹¹ Congressional Research Service, “State Small Business Credit Initiative: Implementation and Funding Issues”, April 23, 2018, p. 41, <https://www.everycrsreport.com/reports/R42581.html> (accessed February 24, 2021).

¹² U.S. Small Business Administration, Office of Advocacy, “Small Business Lending in the United States”, September 2020, <https://cdn.advocacy.sba.gov/wpcontent/uploads/2020/09/10092858/Report-2019-Small-Business-Lending-Report.pdf> (accessed February 24, 2021).

¹³ William C. Dunkelberg and Holly Wade, NFIB Small Business Economic Trends, NFIB Research Center, December 2020, <https://assets.nfib.com/nfibcom/SBETDec-2020.pdf> (accessed February 23, 2021).

1 point).¹⁴ Small business credit conditions in December—based on the percentage of businesses reporting “easier” lending conditions vs. “harder” lending conditions—were identical to conditions one year prior, months before any COVID–19 impact began.¹⁵ This stands in stark contrast to the Great Recession more than a decade ago where credit conditions according to the same index plunged, taking years to recover to their prerecession levels.¹⁶ In fact, obtaining financing is the reported top concern of just 1 percent of small business owners.¹⁷ In past economic crises, 37 percent have reported financing and interest rates as a top concern.

More Federal Government Lending to Businesses Crowds out the Private Sector

More Federal funding of private enterprise crowds out private capital from the credit market. Our credit markets serve an important function of efficiently allocating resources across the economy. Usually, businesses and projects must compete with each other to obtain limited amounts of capital in order to secure the resources needed to function. Interest rates or return on equity serve as important price signals—and also determine which businesses ultimately will obtain the capital. The flow of capital from the Federal Government to private businesses alters this equation. By delivering capital at submarket interest rates or sometimes in the form of outright grants, businesses which otherwise may not secure funding in a competitive environment from an investor find it possible to obtain capital—and to continue consuming limited resources.

The Small Business Administration (SBA) loan guarantees now secure more than 50 percent of all outstanding loan balances as of Q3 2020—up from less than 10 percent at the beginning of 2020.¹⁸

A \$15 National Minimum Wage Disproportionately Harms Particular Individuals, Businesses, and Locales

A one-size-fits-all \$15 Federal minimum wage fails to take into account that the cost of living in Iowa is less than half that of Hawaii.¹⁹ In these more affordable locales, these mandates can be expected to far more negatively impact businesses and jobs opportunities. It’s effectively a Red State tax. The unintended consequences loom large.

A \$15 Federal minimum effectively excludes those who produce less than \$36,000 per year (the payroll cost of employing one full-time worker) from participating in the U.S. labor market. This would destroy jobs and opportunities for those who most need it, such as the 26 million Americans who did not graduate from high school. Young adults seeking their first jobs, people living with disabilities, and those reentering society after incarceration will be amongst the first to be priced out of the jobs market. This can alter the life trajectory for these individuals.

Expect larger businesses to stave off insolvency by outsourcing and automation. Many others, particularly in low-margin sectors such as fast food, will simply close their doors. The Congressional Budget Office now estimates that a \$15 minimum wage would destroy 1.4 million jobs. For every 2 people estimated to be lifted out of poverty, the CBO estimates 3 will lose their jobs.²⁰

A Heritage Foundation report estimates the \$15 Federal minimum wage will cause childcare costs to soar by 21 percent. In many States—including Georgia, South Carolina, Iowa, and Louisiana—costs could rise well in excess of 30 percent. This is untenable for many low- and middle-class families. Families with two chil-

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ Ibid.

¹⁷ Ibid.

¹⁸ Federal Reserve Bank of Kansas City, “kcFed Small Business Lending Survey”, Chart 2, December 21, 2020, <https://www.kansascityfed.org/media/files/publicat/research/indicatorsdata/smallbusiness/2020/small%20business%20lending%20survey%20template%203rd%20quarter%20-%2012212020v2.pdf?la=en> (accessed February 24, 2021).

¹⁹ Missouri Economic Research and Information Center, “Composite Cost of Living Index 2020 Quarter 4”, <https://merc.mo.gov/data/cost-living-data-series> (accessed February 24, 2021).

²⁰ “The Effects on Employment and Family Income of Increasing the Federal Minimum Wage”, Congressional Budget Office July 2019, <https://www.cbo.gov/system/files/2019-07/CBO-55410-MinimumWage2019.pdf> and “The Budgetary Effects of the Raise the Wage Act of 2021”, Congressional Budget Office, February 2021, <https://www.cbo.gov/system/files/2021-02/56975-Minimum-Wage.pdf>.

dren could see costs rise by more than \$5,000 in Nevada, Kansas, Oklahoma, Wisconsin, Louisiana, and Georgia and by more than \$6,000 in Iowa and Indiana.²¹

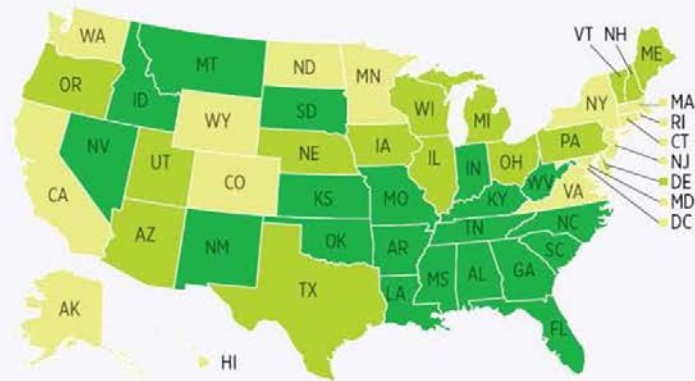
The bottom line: a one-size-fits-all \$15 minimum wage will destroy jobs, hamper economic growth, close businesses, and increase costs for everyday families. Instead of mandates that reduce productivity, policymakers should seek real and lasting wage gains that come from workers' creating more value, such as the reduced regulations and taxes that freed up resources for businesses to invest in workers and contributed to a 14.6 percent increase in the incomes of the lowest 10th percentile of workers from 2016 to 2019.²²

²¹Rachel Greszler, "The Impact of a \$15 Federal Minimum Wage on the Cost of Childcare", Heritage Foundation Backgrounder No. 3584, February 11, 2021, <http://report.heritage.org/bg3584>.

²²The median usual weekly earnings of workers at the 10th percentile of the wage distribution—those making about \$10 to \$11 per hour—increased by 14.6 percent (from \$397/week to \$455/week) between 2016 and 2019. Data available for download from U.S. Bureau of Labor Statistics, "Data Retrieval: Labor Force Statistics—Table 5. Quartiles and Selected Deciles of Usual Weekly Earnings of Full-Time Wage and Salary Workers by Selected Characteristics, Not Seasonally Adjusted", <https://www.bls.gov/webapps/legacy/cpswktab5.htm> (accessed February 1, 2021).

One-Size Minimum Wage Not a Good Fit

A \$15 minimum wage in Mississippi would be like a \$35.74 minimum wage in Washington, D.C.



MEDIAN HOURLY WAGE, 2019: \$20+ \$18-\$20 \$15-\$18

D.C.	\$35.74	Oregon	\$19.83	Georgia	\$17.75
Massachusetts	\$24.14	Illinois	\$19.74	N. Carolina	\$17.75
Alaska	\$23.34	Vermont	\$19.68	Montana	\$17.51
Connecticut	\$23.33	Delaware	\$19.66	Nevada	\$17.51
Washington	\$23.15	Pennsylvania	\$18.99	Tennessee	\$17.26
New York	\$22.44	Wisconsin	\$18.79	Florida	\$17.23
Maryland	\$22.10	Michigan	\$18.60	Oklahoma	\$17.18
New Jersey	\$21.64	Ohio	\$18.54	Kentucky	\$17.09
Hawaii	\$21.35	Arizona	\$18.46	New Mexico	\$17.03
Colorado	\$21.28	Nebraska	\$18.46	Idaho	\$17.00
California	\$21.24	Maine	\$18.45	Alabama	\$16.73
Rhode Island	\$21.24	Iowa	\$18.41	S. Dakota	\$16.71
Minnesota	\$21.21	Texas	\$18.28	S. Carolina	\$16.68
N. Dakota	\$20.44	Utah	\$18.23	Louisiana	\$16.66
Virginia	\$20.30	Missouri	\$17.88	W. Virginia	\$16.31
Wyoming	\$20.02	Kansas	\$17.79	Arkansas	\$15.84
New Hampshire	\$19.95	Indiana	\$17.77	Mississippi	\$15.00

NOTE: Setting the federal minimum wage at \$15 per hour would, for Mississippi, be equivalent to setting the minimum wage equal to the state's median wage. The data in this map show what minimum wages would be if all states were forced to set their minimum wages equal to their median wages, as Mississippi would have to do if Congress enacts a \$15/hour federal minimum wage.

SOURCE: Bureau of Labor Statistics.

\$15 Federal Minimum Wage Would Increase Childcare Costs 21 Percent

Costs would rise disproportionately in lower-cost areas, with 10 states experiencing childcare cost increases of 30 percent or more.



AVERAGE PERCENTAGE INCREASE IN CHILDCARE COSTS

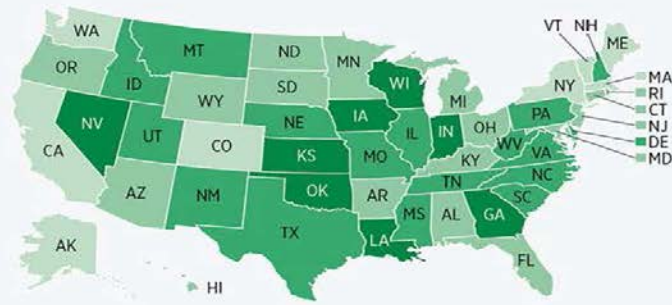


Alabama	35%	Montana	23%
Alaska	8%	Nebraska	20%
Arizona	13%	Nevada	25%
Arkansas	30%	New Hampshire	18%
California	7%	New Jersey	11%
Colorado	6%	New Mexico	25%
Connecticut	10%	New York	7%
Delaware	23%	North Carolina	23%
Florida	20%	North Dakota	17%
Georgia	32%	Ohio	22%
Hawaii	11%	Oklahoma	37%
Idaho	30%	Oregon	10%
Illinois	18%	Pennsylvania	23%
Indiana	27%	Rhode Island	9%
Iowa	33%	South Carolina	34%
Kansas	28%	South Dakota	30%
Kentucky	29%	Tennessee	28%
Louisiana	37%	Texas	25%
Maine	9%	Utah	24%
Maryland	14%	Vermont	5%
Massachusetts	4%	Virginia	19%
Michigan	19%	Washington	4%
Minnesota	13%	West Virginia	28%
Mississippi	43%	Wisconsin	23%
Missouri	24%	Wyoming	18%

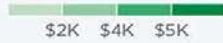
SOURCE: Heritage Foundation calculations based on data from Bureau of Labor Statistics, and ProCare, "Child Care Costs by State 2020."

The Impact of \$15 Federal Minimum Wage on Childcare Costs

Enacting a \$15 per hour federal minimum wage would increase the costs of childcare by thousands of dollars in most states.



AVERAGE YEARLY INCREASE IN CHILDCARE COSTS FOR ONE INFANT AND ONE 4-YEAR-OLD



Alabama	\$3,931	Montana	\$4,094
Alaska	\$1,789	Nebraska	\$4,735
Arizona	\$2,441	Nevada	\$5,019
Arkansas	\$3,695	New Hampshire	\$4,127
California	\$1,873	New Jersey	\$2,685
Colorado	\$1,788	New Mexico	\$4,091
Connecticut	\$2,688	New York	\$1,888
Delaware	\$4,611	North Carolina	\$4,071
Florida	\$3,309	North Dakota	\$2,981
Georgia	\$5,222	Ohio	\$3,842
Hawaii	\$2,427	Oklahoma	\$5,602
Idaho	\$4,135	Oregon	\$2,301
Illinois	\$4,263	Pennsylvania	\$4,950
Indiana	\$6,028	Rhode Island	\$2,276
Iowa	\$6,304	South Carolina	\$4,423
Kansas	\$5,636	South Dakota	\$3,698
Kentucky	\$3,872	Tennessee	\$4,547
Louisiana	\$5,487	Texas	\$4,070
Maine	\$1,641	Utah	\$4,225
Maryland	\$3,693	Vermont	\$1,269
Massachusetts	\$1,608	Virginia	\$4,736
Michigan	\$3,724	Washington	\$1,131
Minnesota	\$3,639	West Virginia	\$4,519
Mississippi	\$4,406	Wisconsin	\$5,227
Missouri	\$4,113	Wyoming	\$3,573

SOURCE: Heritage Foundation calculations based on data from Bureau of Labor Statistics, and ProCare, "Child Care Costs by State 2020."

Reopening the Economy Is Saving Small Businesses

Full economic recovery does not stem from stimulus checks or bailouts from Washington. Rather, it's largely a result of individuals and businesses safely and legally interacting with others. The historic economic rebound this summer proves that those properly informed of the actual risks of the virus and the appropriate mitigation measures are enthusiastically participating in this reopening.

Nationally, economic growth in last year's third quarter smashed all prior records—growing at a stunning 33.4 percent annual pace.²³ Record growth occurred even as Government transfer payments and Paycheck Protection Program expenditures dropped by 20 percent in the quarter.²⁴

The pace of the recovery varies widely across the Nation due to lockdown restrictions—ostensibly implemented to contain the spread of the virus.

The Federal Reserve State Coincident Indexes—an approximation of State GDP—vividly illustrates how variant the economic recovery is based on States.²⁵ This index suggests economic output at the end of 2020 was actually greater than prepandemic in Utah, Missouri, Idaho, Nebraska, Alaska, South Dakota, Mississippi, and Georgia—notably States without crushing, longlasting shutdowns. The economies in Hawaii, Michigan, Rhode Island, Massachusetts all remain more than 10 percent smaller. Meanwhile, States like New York, Hawaii, and Illinois remain mired in severe recessions. Only this month did Gov. Andrew Cuomo (D-NY) and Chicago Mayor Lori Lightfoot (D-IL) admit that their shutdowns of the service sectors may need to be relaxed.

In El Centro, California, 17.7 percent are unemployed, Los Angeles suffers from 9.9 percent unemployment. Across New York City, draconian restrictions and an army of compliance officers continue to push tens of thousands of businesses out of business, resulting in 8.4 percent unemployment.²⁶

Meanwhile, unemployment in numerous communities in Alabama, Idaho, Iowa, Nebraska, South Dakota, and Utah is at 3 percent or less. The statewide unemployment rate of under 4 percent in Alabama, Iowa, Kansas, Nebraska, South Dakota, Utah, and Vermont contrasts sharply with rates at least twice as high in California, Colorado, Connecticut, Hawaii, Illinois, Nevada, New York, and Rhode Island.²⁷ Overall, in December, the 10 States with the fewest restrictions in place²⁸ averaged 4.7 percent unemployment—while the 10 States with the most restrictions averaged 7.1 percent unemployment.²⁹

A full recovery requires a safe reopening rather than more fiat currency, borrowing, and Government spending. Only then will we see both investment and consumption return in full force.

In December, 13 percent of small business owners reported poor sales as the single most important problem—this was more than twice the number of a year ago.³⁰ Businesses don't need Government largesse. And workers do not need more Government mandates. What our Nation needs is a continued reopening.

Continued Fiscal Imprudence Threatens Our Economic Security

The Federal Reserve currently enables this explosion of spending by digitally creating dollars and using those to purchase Government bonds from the Treasury, which prevents the debt market from being overloaded.

²³ U.S. Bureau of Economic Analysis, "National Economic Accounts, Table 1", January 28, 2021, <https://www.bea.gov/sites/default/files/2021-01/gdp4q20-adv.xlsx> (accessed February 16, 2021).

²⁴ U.S. Bureau of Economic Analysis, "Effects of Selected Federal Pandemic Response Programs on Personal Income", <https://www.bea.gov/sites/default/files/2020-10/effectsof-selected-federal-pandemic-response-programs-onpersonal-income-2020q3-adv.xlsx> (accessed February 16, 2021).

²⁵ Federal Reserve Bank of Philadelphia, "State Coincident Indexes", <https://www.philadelphiafed.org/-/media/frbp/assets/surveys-anddata/coincident/coincident-revised.xls> (accessed February 16, 2021).

²⁶ U.S. Bureau of Labor Statistics, "Unemployment Rates for Metropolitan Areas", preliminary for December 2020, <https://www.bls.gov/web/metro/laummtrk.htm> (accessed February 23, 2021).

²⁷ U.S. Bureau of Labor Statistics, "Unemployment Rates for Metropolitan Areas", preliminary for December 2020, <https://www.bls.gov/web/metro/laummtrk.htm> (accessed February 23, 2021).

²⁸ Adam McCann, "States With the Fewest Coronavirus Restrictions", WalletHub, January 26, 2021, <https://wallethub.com/edu/states-coronavirusrestrictions/73818> (accessed February 4, 2021).

²⁹ U.S. Department of Labor, "Bureau of Labor Statistics", Local Area Unemployment Statistics Data Series, December 2020, <https://www.bls.gov/web/laus/laumstrk.htm> (accessed February 4, 2021).

³⁰ Ibid.

In under a year, Federal Reserve banks have more than doubled the amount of U.S. Government debt it owns (printing money to buy debt), leaping from \$2.4 trillion to \$4.9 trillion, nearly all of this coming during the COVID-19 crisis.³¹

This allows politicians to distribute large sums of money without immediately raising taxes or overloading credit markets, a process that simply cannot go on forever.

Future generations will bear the brunt of the consequences.

Inflation is a growing concern. Eventually the Federal Reserve will have to reverse its actions and sell the bonds back to the public, or else risk stoking even higher inflation.

What would happen at that point? Nobody really knows, but it could be a disaster.³² Since mid-March, the dollar has lost approximately 10 percent of its value relative to other currencies.³³

Masking this economic misery by racking up trillions more in debt and instructing the central bank to distribute trillions more to favored interests might be politically expedient. However, it's irresponsible. Economist Larry Summers, former director of the National Economic Council for President Obama, recently warned that the current plan under consideration could generate "inflationary pressures of a kind we have not seen in a generation, with consequences for the value of the dollar and financial stability."³⁴

The bottom line: We will pay for this through the visible burden of direct taxation, the hidden tax of inflation, higher borrowing costs, or some combination of the three. This will be a long-term drag on economic growth. The notion that Congress—or the Fed—simply will be able to fine-tune taxes and inflation without any consequences is a fantasy. It is time for our leaders to take the national debt seriously. With this in mind, any additional Federal relief measures should focus on providing legal protections for businesses to reopen and tailoring aid to meet the health crisis.³⁵

PREPARED STATEMENT OF DANI RITCHIE

OWNER/STYLIST, STUDIO ALCHEMY, HARMONY, PENNSYLVANIA

FEBRUARY 25, 2021

Chairman Brown, Ranking Member Toomey, and Members of the Committee, thank you for the invitation to testify today and allowing me to share my story.

My name is Dani Ritchie. I am a hair salon owner and part-time service worker from New Castle, Pennsylvania. My hair salon is located in Harmony, Pennsylvania. I opened the door to my business in 2016, only a year after graduating cosmetology school.

Harmony, is a quaint, little historic town in Butler County, with a declining population of 2,500.

In addition to working as a hairstylist in my salon, I work part-time as a server and bartender. Working in the restaurant industry while attending college, I could pick up extra shifts when I was low on cash, and my flexible schedule allowed me to go to school while still making an income. I've worked in the restaurant industry for 18 years now, 10 of them at North Country Brew Pub, in Slippery Rock, Pennsylvania, where I am still currently employed part-time.

Being a server and bartender at the brewery is what allowed me to pursue my passion of becoming a cosmetologist and open my very own salon. The flexible hours allowed me to attend school, and the generous tips are what helped me to save and open my salon without having to get a loan.

When Pennsylvania first imposed business shutdown orders in March of 2020, I had to close the doors to my salon for over 3 months, while still having to pay rent and utilities for an unoccupied building. I was also unable to work at the brewery

³¹Federal Reserve Bank of St. Louis, Series FDHBFBRN, <https://fred.stlouisfed.org/series/FDHBFBRN> (accessed February 24, 2021).

³²Norbert Michel, Paul Winfree, and Doug Badger, "Potential Long-Term Economic Consequences of the Federal Response to the COVID-19 Lockdowns", Heritage Foundation Backgrounder 3498, June 4, 2020, <https://www.heritage.org/sites/default/files/2020-06/BG3498.pdf> (accessed February 24, 2021).

³³Daily FX, "U.S. Dollar Index (DXY)", <https://www.dailyfx.com/us-dollar-index> (accessed February 24, 2021).

³⁴Larry Summers, "The Biden Stimulus Is Admirably Ambitious. But It Brings Some Big Risks, Too", *The Washington Post*, February 4, 2021, <https://www.washingtonpost.com/opinions/2021/02/04/Larry-summers-biden-covid-stimulus/> (accessed February 24, 2021).

³⁵Public health represents less than 10 percent of the spending in this package.

at that time because it was temporarily shut down. Luckily, when the brewery was finally permitted to open back up on a limited basis to provide take-out and delivery orders, I was able to pick up work there.

The owners of North Country Brewing Company, Bob and Jodi McCafferty, are incredible people who have worked so hard to provide not only one, but three unique, sustainable businesses in Slippery Rock and Harmony. All three locations have provided secure employment for 206 people, that is until the Government put in place coronavirus restrictions for restaurants.

During the first round of shutdowns, they could only keep 23 active employees on payroll (which means 183 were laid off). And during the second round of shutdowns, there were only 39 active employees on payroll (leaving 106 laid off). It's heartbreaking to see the astronomical number of restaurants and other small businesses that have suffered financially and, in some cases, had to close permanently because of the economic hardship caused by Government shutdowns and restrictions.

Given these challenging circumstances, I am deeply concerned by the proposal to raise the national minimum wage to \$15 an hour and eliminating the tip credit. This proposal would be financially devastating to restaurants and other small businesses and many of their workers.

Servers at the brewery where I work are paid \$3 an hour plus tips. Our tips provide us with an income that surpasses a \$15 an hour minimum wage. Asking Bob and Jodi to increase the majority of their front of house staff to \$15 an hour is asking them to give a 400 percent raise to most of their employees. That would be a severe increase in expenses, at any time, but will be especially difficult given that COVID shutdowns and restrictions have caused an enormous hit to sales.

Jobs will be lost, and menu prices will sky-rocket to cover the mandated raises, which will undoubtedly deter customers from wanting to go to any restaurant. The restaurants and small businesses that have been lucky to keep their doors open after being ravaged by COVID restrictions are going to have an incredibly hard time surviving if they're forced to pay these wages. That's not to mention the hit to service industry, tip reliant, workers like me. We take jobs at restaurants knowing that we're signing up to make \$3 an hour, and we work hard to provide great service to our customers with the hope that they will compensate us with tips for the "above and beyond" serviced received. We're not asking for a flat rate of \$15 an hour, which will be a major cut in our income.

The restaurant industry has been running on this model for over 80 years now, and it isn't broken. The majority of people fighting for this so-called "one fair wage" have never worked at a restaurant at day in their lives and don't understand that we make a good living with our tips. We aren't asking for their help, and they're actually doing us way more harm than good.

What restaurants, other small businesses, and their workers need is for the economy to fully reopen. Many Government-imposed business restrictions, such as the 25-50 percent capacity, are unnecessarily harmful and need to be lifted as soon as possible. These capacity restrictions do not make sense for many, if any, businesses, including my hair salon. With what we know, and are continuing to find out about the virus, I believe we can safely accommodate 100 percent capacity with modifications that allow for proper social distancing and mask wearing. Businesses should be given the flexibility to accommodate customer attendance and safety, and it should be up to the individual to decide if they want to go to an establishment or stay home. Afterall, we are supposed to have freedom of choice here, in America.

Thank you for your time and for listening to my story as a small business owner of 5 years and a tipped service worker for 18 years. Please hear my words as someone who has been blessed to earn a more than fair income in the restaurant industry with the wage model set in place, as is. And, also as a small business owner, negatively affected by Government restrictions imposed as a response to this pandemic. Piling on more requirements for businesses will only hurt business owners and employees who have already been through enough. We need to move forward from this before it completely crashes our economy and crumbles small, locally owned businesses.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARREN
FROM WATCHEN HARRIS BRUCE**

Q.1. According to the Census Bureau, 46 percent of small businesses surveyed in late February 2021 expect it will take more than 6 months for their operations to return to normal levels, and 8 percent do not believe their business will ever return to normal levels of operations—an increase from the start of the year.¹ What supports do you believe small businesses in your community will be most in need of in the coming months, and what supports do you believe the workers employed by small businesses in your community will most need?

What supports do you believe small businesses in your community will be most in need of in the coming months?

A.1. Grant funds separate from the PPP to cover 6 months of fixed overhead cost, such as facility/office and equipment rental, telephones, website hosting for online sales and promotions, equipment, insurances, vehicle leasing, and gasoline, etc., to offset the loss in business revenue due to economic uncertainty in the marketplace and the rise in COVID–19 variance impacting the younger workforce.

Extension on loan repayment requirements for the SBA EIDL loan until the market fully recovers from the COVID–19 Pandemic.

Assistance from banks with line-of-credit products that address the needs of Small Black and Latino businesses—relaxing requirements such as collateral, debt/revenue ratios, negative net-income on balance sheets, and recent declines in credit scores resulting from the COVID–19 Pandemic and subsequent market volatility.

Small business developers will need help securing materials and skilled labor for projects’ flow to completion. Problems with the supply chain and materials manufacturing, and the housing boom, have placed significant impacts on material cost and availability.

Landlords will need cash flow assistance with tenants unable to make rent payments.

Most small businesses that survived 2020 will need additional free or low-cost patient capital to cover expenses while they return to normal levels of operation.

Rent is one of the biggest concerns we hear about. (PPP helped with employee wages, but many small businesses are sole proprietorships that are “mom & pop” shops with no employees.)

Most small business stories are influenced by the industry in which they work. Wholesalers and retailers who currently have products manufactured overseas are having difficulty and delays importing their products. They will need help moving this process along or be given incentives and support for using American manufacturing if possible.

In addition to financial support, these small businesses could use free, targeted counseling and coaching on critical small business subjects, such as pivoting to online sales, modifying business models, business financial projections and planning, new space designs for businesses, working at home, cost-benefit analysis, finding new manufacturers, etc.

¹Census Bureau, Small Business Pulse Survey, accessed March 3, 2021, <https://portal.census.gov/pulse/data/>.

For those small businesses that deal with the public, consistent guidelines—based on sound medical and scientific advice—for the safest way to conduct business and strong PR encouraging public cooperation to keep small business owners safe.

The current health and economic crisis brought attention and focus to the plight of small businesses in this country, from the Government, from big banks and foundations, and from consumers who see the importance of a strong small business ecosystem. But small businesses, especially those minority and women-owned, have been struggling for years and without fundamental change, the struggle will continue.

Without diligence, this investment in small business now will soon work its way back up to large corporations dominated by White male owners. Rights for small businesses in Government tax and regulatory programs must be continuously championed. And most of all, we must make systematic changes to the small business financial ecosystem that will lay the foundation for an equitable future.

Q.2. What supports do you believe the workers employed by small businesses in your community will most need?

A.2.

- Living Wage—comparable to unemployment
- Guaranteed number of work hours per week
- Employer-sponsored affordable health care
- Financial assistance for educational pursuits
- Proper equipment to work from home, when necessary
- High-risk pay incentives for on-site employment
- As the economy rebounds, I think small business employees will need time to restabilize their financial conditions—cash flow and savings. Those impacted by the pandemic economy may need further foreclosure and eviction moratoriums for an additional period to catch up.
- Opportunities for skills training and job placement in IT, electrical and plumbing skills, medical technology, even small business training, may help some employees find new career paths.

**RESPONSES TO WRITTEN QUESTIONS OF
SENATOR CORTEZ MASTO FROM JOE DELOSS**

Q.1. Have you ever considered franchising your brand?

A.1. We have considered franchising on several occasions throughout our 7 years of operations. These considerations, however, have always been brief, as we do not believe our prototype is prepared sufficiently to be handed off to a franchisee. As we continue to sophisticate our model, we anticipate franchising to be a more viable consideration as a growth vehicle. That said, our current ambitions are defined with more exclusive corporate-owned growth.

Q.2. Do you have concerns about how some businesses sell their brands as franchises?

A.2. I do have concerns with how many business operators franchise their brands. Often, I believe franchising is done prematurely

with inadequate business processes to support a franchisee's success. In these instances, the sales almost exclusively benefit a franchisor while a franchisee is left with a business that fails to meet the sales claims previously made.

**RESPONSES TO WRITTEN QUESTIONS OF CHAIRMAN BROWN
FROM JESSICA MILANO**

Q.1. The CFPB is finally making progress towards collecting demographic data for small business lending, as required under the Dodd–Frank Act. Why is it important for this data to be collected? What do we gain from having this information?

A.1. The implementation of Section 1071 of the Dodd–Frank Act has the potential to transform the small business credit market in the same manner that Home Mortgage Disclosure Act (HMDA) data collection impacted the housing market. HMDA data has allowed researchers and policymakers to study the demand for mortgages and lending practices to better understand market gaps. This transparency supports fair lending and more nuanced analysis of market gaps so that policymakers can effectively address structural challenges that impact home ownership in minority communities.

Similarly, Congress enacted Section 1071 to facilitate enforcement of fair lending laws and enable communities, governmental entities, and creditors to identify business and community development needs and opportunities for women- and minority-owned small businesses. Researchers currently have a patchy and incomplete picture of the small business credit market. On the supply side, the primary data source is loan originations on FFIEC call reports. Banks report small business lending based on the size of the loan, not the size of the business. Any loan amounts less than \$1 million that were secured by nonfarm or nonresidential real estate or as commercial and industrial loans, and “loans to small farms” as originated loans with loan amounts less than \$500,000 are considered small business lending even if these loans are not made to a small business. On the demand side, we do not have a complete data set on who is applying for credit and who is receiving loans until Section 1071 is implemented. The best proxy we have is survey data of small business owners such as the Federal Reserve Bank of New York’s annual Small Business Credit Survey which surveyed 15,000 small employer firms in 2020, a fraction of the Nation’s nearly 30 million small businesses, on their experiences applying for credit. According to the NY Fed 2020 survey, only 37 percent of small businesses that applied for credit received the full amount sought suggesting there is a considerable gap between demand and supply.¹

The data collection required under Section 1071 will enable researchers to connect the demand for small business credit with the supply of credit to create a fuller picture and understanding of who is applying for credit, in what amounts, and where they are located with who is receiving credit. We cannot know what this data will say until it is released but this level of transparency is the first

¹ Federal Reserve Bank of New York, “Small Business Credit Survey, 2021 Report on Employer Firms”.

step to facilitating fair lending and supporting opportunities for all small business owners.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARREN
FROM JESSICA MILANO**

Q.1. In your written testimony, you noted that businesses that were underbanked prior to the pandemic had trouble accessing Paycheck Protection Program (PPP) loans.

Describe the consequences of a business not having access to the financial system.

A.1. Business ownership is often a critical pathway to the middle class for minority and low income families. Research finds that business ownership is a critical component of wealth building for low income families. African American business owners have more than \$52,000 in total wealth compared to just over \$7,000 for non-business owners.¹ The same holds true for Hispanic business owning households, which have more than \$41,000 in total wealth on average compared to \$16,000 for non-business owners.² Wealth building benefits both business owners and their communities. Greater savings helps families weather financial setbacks like the pandemic and provides opportunity to move up the economic ladder.

Challenges accessing capital can mean less resiliency to weather financial setbacks. Businesses owned by entrepreneurs of color were less likely to secure low-interest Government loans in 2020 and more likely to shut down permanently. From February 2020 to April 2020, the number of active business owners in the United States declined 22 percent—the largest drop on record.³ Black, Latino, Asian, and female business owners were all more likely to close their doors for good.

Q.2. Community Development Financial Institutions (CDFIs) are able to leverage their connections in minority and underserved communities to provide capital to small businesses within these communities. What are some ways Congress can continue to support CDFIs and ensure they continue to provide funding to minority-owned businesses?

A.2. CDFIs are a diverse set of mission-driven organizations that provide financial services in communities historically underserved by traditional lenders. CDFIs can be banks, credit unions, loan funds, venture capital firms, and both for-profit or nonprofit entities. Support for CDFIs can take different forms based on the characteristics of the CDFI.

Congress can support CDFI depositories and MDIs with programs like the Emergency Capital Investment Program. These capital investments work to strengthen the balance sheets of these institutions and are modeled on successful programs that worked during the financial crisis to help these institutions continue to

¹ Center for American Progress, “A Progressive Agenda for Inclusive and Diverse Entrepreneurship”, October 2016.

² *Ibid.*

³ Fairlie, Robert W. (2020), “The Impact of COVID-19 on Small Business Owners: Evidence of Early Stage Losses From the April 2020 Current Population Survey”, SIEPR Stanford Institute for Economic Policy Research.

lend and grow to support economic recovery. Through the power of leverage every dollar of Tier 1 capital investment can support up to \$10 in loans to underserved borrowers and low-income communities.

Nonprofit CDFI loan funds cannot have equity investors but can use CDFI financial assistance awards in much the same way as patient, equity like capital on the balance sheet of the organization enabling the CDFI to scale lending to underserved communities. An important source of capital for these organizations is the CDFI Fund awards. In order to support the continued growth of the CDFI sector between crises so they are there for our communities when we need them most we should continue to maintain the recent expansion of funding for the CDFI Fund at \$3 billion.

Q.3. Aside from supporting CDFIs and the CDFI Fund, what are some other steps the Federal Government can take to connect minority-owned businesses to the banking system?

A.3.

1. *Remove Barriers to Credit*—For many self-employed, sole proprietorships, and would be entrepreneurs applying for a business loan is closely tied to personal credit. For many low income and minority borrowers, weak credit histories and debt can create a significant barrier to starting and growing a business. In some States and cities, business owners are even required to prove they do not owe debts to the Government prior to obtaining or renewing a business license even if the debts are unrelated to the business. This can make fines and fees like parking tickets and other civic fines a barrier to credit. A 2017 study by the U.S. Commission on Civil Rights found these practices disproportionately impact low income and communities of color.⁴
2. *Improve Digital Connection*—The pandemic has shown that without access to fast, reliable broadband it can be difficult for businesses to continue to operate, connect with customers, and apply for credit online. However, disparities accessing broadband continue to persist. In 2020, only 77 percent of Americans living in rural areas and 72 percent living on tribal lands had access to broadband compared to 98 percent living in urban areas and approximately 18 percent of Black American households lack access to home broadband subscriptions.⁵ Congress should create and deploy a national broadband plan that includes geographic access where coverage is lacking and subsidy for low income households to level the playing field for small businesses in these communities.
3. *Make Credit Safe*—Congress should pass legislation extending the Truth in Lending Act’s disclosure requirements to small business loans or credit products, understanding that communities of color are often targeted by predatory lenders. Similarly, Small Business Majority recommends promoting respon-

⁴“America’s New Business Plan”, Start Us Up Coalition, Available at: <https://www.startusupnow.org/anbp>.

⁵Ibid.

sible lending practices by lenders and brokers as set forth in the Small Business Borrowers' Bill of Rights.

4. Support technical assistance to borrowers to understand how to get credit ready, financing options, and appropriate amount of debt for business

Even with the above changes, some borrowers will need assistance building a business plan, applying for credit, and understanding financing options for their business. This is where business advisory services can play an important role in getting a business credit ready and on a path to success. The American Rescue Plan Act includes funding for technical assistance providers as part of a reauthorized State Small Business Credit Initiative.

Q.4. Do you have recommendations for how the PPP or future small business relief programs could be restructured to ensure that funds are accessible to underbanked businesses? If so, please provide them.

A.4. Yes, target Federal relief programs to the lenders that serve historically underbanked businesses. Programs like the CDFI Fund and State Small Business Credit Initiative (SSBCI) are proven to reach more minority and underbanked businesses by supporting the lender ecosystem of CDFIs, MDIs, and smaller community banks that serve these borrowers best.

Prior to the pandemic, roughly 30 percent of SBA 7(a) loans went to women-owned and minority-owned businesses.⁶ By contrast, CDFI's must serve a target market of 60 percent or greater low-to-moderate income communities or minority population. In order for non-depository CDFI's to be able to scale small business lending in a crisis, they need three main things: (1) operational support to increase lending volume, (2) capital to support their ability to take new risk, and (3) affordable liquidity to make affordable loans. In the next crisis, a portion of relief funds could be set aside for SBA to provide capital to CDFI loan originators and purchase the guarantee portion of the loans back from the CDFIs so that CDFIs can focus on what they do best—leveraging their unique experience to underwrite and work with underserved borrowers—and by retaining the unguaranteed portion of the loans on balance sheet helps ensure market driven underwriting.

Q.5. Recent reports suggest that efforts to study and evaluate the efficacy of the PPP have been frustrated by a lack of demographic data about borrowers.⁷ According to SBA, 75 percent of PPP loan recipients did not report their ethnicity on their applications and 58 percent did not report their gender.⁸

In what ways has a lack of detailed demographic data about PPP loan recipients inhibited the Government's ability to improve the program and address inequities?

A.5. Without demographic data about credit applications and originations it is difficult for policymakers to determine if there is systemic lending discrimination and how to address it. The National

⁶ <https://www.sba.gov/sites/default/files/2019-12/WebsiteReport-asof-20191227.pdf>

⁷ Politico, "Tracking the Money: Bid To Make Business Rescue More Inclusive Undercut by Lack of Data", Zachary Warmbrodt, March 2, 2021, <https://www.politico.com/news/2021/03/02/businesses-inclusive-coronavirus-relief-money-data-472539>.

⁸ Id.

Community Reinvestment Coalition conducted studies in April and July of 2020 which found disparities in how Black- and White-owned businesses were treated when applying for PPP funding, with White-owned businesses being preferred.⁹ This suggests that more robust data collection could be useful to SBA and to policy-makers to help identify if there are disparate outcomes in applying for Federal relief programs and if there are, if those outcomes are based on programmatic issues that could be changed (such as the calculation for self-employed discussed in a previous question) or if related to lender practices and enforcement of fair lending laws.

Q.6. Do you believe systemic data reporting on borrower race and gender would have resulted in more minority-owned small businesses receiving PPP assistance, particularly in later rounds of the program?

A.6. Yes, I believe had this information been available in real time during the early rounds of PPP it would have been much easier to adjust program guidelines to ensure fairer access to the program. Systemic reporting of demographic data has led to better enforcement of fair lending and greater opportunities for home ownership among minority borrowers. The implementation of Section 1071 of the Dodd–Frank Act has the potential to transform the small business credit market in the same manner that Home Mortgage Disclosure Act (HMDA) data collection impacted the housing market. The Dodd–Frank Act passed in 2010, it is time for the Consumer Financial Protection Bureau (CFPB) to finalize rules for Section 1071 so that it can be enforced.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR SINEMA
FROM JESSICA MILANO**

Q.1. Since the beginning of the coronavirus pandemic, small business owners of color have experienced additional barriers to participating in Federal rescue programs. The Small Business Majority’s own research shows that nationally only one in three Black and Latino small business owners applied for a Paycheck Protection Program (PPP) loan, and only 23 percent of Black and 27 percent of Latino small business owners received the full amount requested. Arizona is home to over 120,000 minority owned small businesses. How can Congress improve participation rates, and ensure Black and Latino business owners have equal access, to Federal relief programs?

A.1. Improving participation in Federal relief programs requires expanding access to programs like PPP through greater access to financial services for underbanked businesses—“opening more doors”—and removing barriers to credit that can disproportionately impact minority-owned businesses.

In February 2021, the Biden administration took steps to expand access to the program by establishing an exclusive 2-week window for business with fewer than 20 employees to apply for PPP loans in addition to steps the SBA has taken to increase the share of funding distributed through Minority Depository Institutions

⁹“Lending Discrimination Within the Paycheck Protection Program”, The National Community Reinvestment Coalition.

(MDIs) and Community Development Financial Institutions (CDFIs) which have deep experience working with traditionally underbanked borrowers.

In terms of removing barriers, Small Business Majority recommends extending PPP applications for self-employed businesses and clarifying that program guidelines do not require a credit check for PPP loans. Both of these hurdles disproportionately impacted minority-owned businesses in earlier rounds of PPP applications.

According to SBA data, minority-owned and women-owned businesses are more likely to be nonemployer firms¹ but the original PPP loan calculation did not offer much assistance to self-employed and sole proprietorships. PPP loans were originally calculated using net profits, which deducts business expenses. As a result, the net profit for a self-employed individual or sole proprietor was often very low after accounting for these deductions. A survey of Small Business Majority's network found that while 60 percent of self-employed respondents did receive a PPP loan, nearly one in three did not receive the full loan amount they requested, including virtually all of the Black self-employed entrepreneurs surveyed. Under the Biden administration, SBA has made changes to these calculations to address this issue. To encourage program participation and ensure adequate time for these business owners to apply, PPP could be extended for this group.

Second, although the CARES Act does not require a minimum credit score to apply for a PPP loan, small businesses surveyed by Small Business Majority have indicated that they were declined for PPP funding because of their credit history. According to the survey, 9 percent of respondents were told by their lender there were issues with their credit when they applied for PPP. This could have discouraged participation by minority-owned businesses in the program. According to a separate study by Experian, a credit reporting company, minority-owned small businesses have lower average credit scores than the general U.S. small business credit population.² SBA should do more public outreach direct to borrowers letting them know there is no minimum credit score to qualify for PPP loans in order to encourage broader participation in the program.

Q.2. Lower PPP participation rates for Black and Latino business owners may be partially attributed to the fact that many small business owners of color lacked a business banking relationship prior to the pandemic. How can Congress improve access to business banking for Black and Latino business owners across the country and in Arizona?

A.2. Access to financing is often one of the biggest hurdles small business owners face, particularly for the smaller loan amounts many new or very small businesses seek. Seventy-six percent of all businesses in the United States have average annual receipts less

¹U.S. Small Business Administration, "Nonemployer Fact Sheet", Available at: <https://www.sba.gov/sites/default/files/advocacy/Nonemployer-Fact-Sheet.pdf>.

²"Minority Business Owners: An Experian Data Study", Available at: <https://www.experian.com/business-information/landing/minorities-data-study>.

than \$100,000.³ For minority-owned and woman-owned businesses, that figure is even higher: 86 percent of minority-owned businesses and 88 percent of woman-owned business bring in less than \$100,000 per year.⁴

Historically, community banks were the foundational source of relationship lending to small businesses but that is not always the case today. From 1997 to 2015, community banks' share of originations less than \$100,000 declined from 82 percent to 29 percent in less than 20 years.⁵ As a result, access to credit for new businesses, very small businesses, minority- and women-owned businesses was a challenge even before the pandemic. According to the Federal Reserve Bank's 2016 report on minority firms, only 40 percent of firms owned by people of color received the full amount of capital sought, compared to 68 percent of nonminority firms.⁶ Ultimately, these disparities in accessing capital undermines the trajectory of our small business ecosystem and their contributions to our overall economy.

The pandemic has highlighted these opportunity gaps in our country and the challenges accessing PPP have helped policy-makers learn about the experiences of underbanked businesses trying to access Federal relief programs. The silver lining in this experience is the spotlight it has shown on the extraordinary work of CDFIs and MDIs to reach underbanked businesses.

CDFIs are a diverse set of mission-driven organizations that provide financial services in communities historically underserved by traditional lenders. CDFIs can be banks, credit unions, loan funds, venture capital firms, and both for-profit or nonprofit entities. Support for CDFIs can take different forms based on the characteristics of the CDFI.

Congress can support CDFI depositories and MDIs with programs like the Emergency Capital Investment Program. These capital investments work to strengthen the balance sheets of these institutions and are modeled on successful programs that worked during the financial crisis to help these institutions continue to lend and grow to support economic recovery. Through the power of leverage every dollar of Tier 1 capital investment can support up to \$10 in loans to underserved borrowers and low-income communities.

Nonprofit CDFI loan funds cannot have equity investors but can use CDFI financial assistance awards in much the same way as patient, equity like capital on the balance sheet of the organization enabling the CDFI to scale lending to underserved communities. An important source of capital for these organizations is the CDFI Fund awards. In order to support the continued growth of the CDFI sector between crises so they are there for our communities when we need them most we should continue to maintain the recent expansion of funding for the CDFI Fund at \$3 billion.

³ Consumer Financial Protection Bureau, "Key Dimensions of the Small Business Lending Landscape", May 2017.

⁴ Ibid.

⁵ Federal Reserve Bank of Chicago, "Small Business Lending After the Financial Crisis: A New Competitive Landscape for Community Banks", March 2016.

⁶ Federal Reserve Bank of Cleveland, "Small Business Credit Survey, Report on Minority-Owned Firms", November 2017.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARNOK
FROM JESSICA MILANO**

Q.1. Ms. Milano, can you elaborate on the additional challenges minority-owned small businesses have faced in getting the capital they need during the pandemic?

A.1. While the first round of the Paycheck Protection Program (PPP) is estimated to have reached up to 74 percent of small businesses nationally,¹ “these loans reached only 20 percent of eligible firms in States with the highest densities of Black-owned firms, and in counties with the densest Black-owned business activity, coverage rates were typically lower than 20 percent.”²

What we learned from PPP is that businesses that were underbanked prior to the pandemic had trouble accessing these loans. Non-employer firms, like the self-employed, and small business owners of color were much less likely to have a business banking relationship prepandemic—31 percent of Black-owned businesses, 28 percent of AAPI-owned businesses, and 26 percent of Latino-owned business owners lacked business banking.³ When the pandemic hit, emergency programs implemented by the SBA favored national 7(a) lenders and their clients. While well intentioned, smaller community lenders that had not previously done a high volume of SBA loans found it confusing or difficult to utilize the program, leaving their clients shut out. And businesses without strong banking relationships precrisis were even further at the back of the queue.⁴

According to Small Business Majority’s polling, roughly 4 in 10 small business owners had not obtained any capital prepandemic like loans or lines of credit from any lending institution including 31 percent of Black-owned businesses and 38 percent of Latino-owned businesses. These loose ties to the banking sector meant relatively few small business owners surveyed by Small Business Majority were able to secure funding through Federal small business relief programs. While roughly 1 in 3 applied for a PPP loan, only a third received the full amount requested, and the number was even lower for minority-owned businesses—23 percent of Black-owned businesses, 23 percent of AAPI-owned businesses and 27 percent Latino-owned businesses received the full amount.⁵

The consequence of this is that minority-owned businesses were more likely to fail. From February 2020 to April 2020, the number of active business owners in the United States declined 22 percent—the largest drop on record.⁶ Black, Latino, Asian, and female business owners were all more likely to close their doors for good.

¹U.S. Census Bureau, “Small Business Pulse Survey: Tracking Changes During The Coronavirus Pandemic”, Data as of January 10, 2021, Available at: <https://www.census.gov/data/experimental-data-products/small-business-pulse-survey.html>.

²Mills, Claire Kramer and Jessica Battisto, “Double Jeopardy: COVID-19’s Concentrated Health and Wealth Effects in Black Communities”, Federal Reserve Bank of New York, August 2020.

³Small Business Majority, “Scientific Opinion Poll: Small Businesses Struggling To Access Capital, Harming Their Financial Recovery”, February 17, 2021.

⁴*Wall Street Journal*, “PPP Small Business Loans Left Behind Many of America’s Neediest Firms”, June 17, 2020.

⁵Small Business Majority, “Scientific Opinion Poll: Small Businesses Struggling To Access Capital, Harming Their Financial Recovery”, February 17, 2021.

⁶Fairlie, Robert W. (2020), “The Impact of COVID-19 on Small Business Owners: Evidence of Early Stage Losses From the April 2020 Current Population Survey”, SIEPR Stanford Institute for Economic Policy Research.

Q.2. Ms. Milano, when the pandemic response bill has passed later this month, many will try to turn the page and view Congress' work in this space as done. I understand that this needs to be a continuing effort to assist our small businesses as they weather a once in a lifetime crisis. Can you talk about the need for Congress and the Administration to keep working with our businesses, including those in Georgia, after the pandemic response bill is signed into law?

A.2. In Georgia, many small businesses continue to struggle. A recent survey by Small Business Majority highlights the extent to which the COVID-19 crisis has pushed Georgia small businesses to the brink: 6 in 10 have been negatively affected, and the same number say their revenues declined last year compared to the previous year. More than half of those whose revenue declined report it will take more than 6 months for their business revenues to return to prepandemic levels, and 7 percent say they will never fully recover. As these findings reveal, many Georgia small businesses are still struggling to keep the lights on and their employees on payroll as a result of the economic downturn.

Although the American Rescue Plan will allocate more capital for small businesses, there will be continued need for the Federal Government to support stronger small business ecosystems to expand access to capital, ensure financing is safe and affordable, and level the playing field for all entrepreneurs:

1. *Remove Barriers to Credit*—For many self-employed, sole proprietorships, and would be entrepreneurs applying for a business loan is closely tied to personal credit. For many low income and minority borrowers, weak credit histories and debt can create a significant barrier to starting and growing a business. In some States and cities, business owners are even required to prove they do not owe debts to the Government prior to obtaining or renewing a business license even if the debts are unrelated to the business. This can make fines and fees like parking tickets and other civic fines a barrier to credit. A 2017 study by the U.S. Commission on Civil Rights found these practices disproportionately impact low income and communities of color.⁷
2. *Improve Digital Connection*—The pandemic has shown that without access to fast, reliable broadband it can be difficult for businesses to continue to operate, connect with customers, and apply for credit online. However, disparities accessing broadband continue to persist. In 2020, only 77 percent of Americans living in rural areas and 72 percent living on tribal lands had access to broadband compared to 98 percent living in urban areas and approximately 18 percent of Black American households lack access to home broadband subscriptions.⁸ Congress should create and deploy a national broadband plan that includes geographic access where coverage is lacking and subsidy for low-income households to

⁷“America’s New Business Plan”, Start Us Up Coalition, Available at: <https://www.startusupnow.org/anbp>.

⁸Ibid.

level the playing field for small businesses in these communities.

3. *Make Credit Safe*—Congress should pass legislation extending the Truth in Lending Act’s disclosure requirements to small business loans or credit products, understanding that communities of color are often targeted by predatory lenders. Similarly, Small Business Majority recommends promoting responsible lending practices by lenders and brokers as set forth in the Small Business Borrowers’ Bill of Rights.
4. *Support technical assistance to borrowers to understand how to get credit ready, financing options, and appropriate amount of debt for business*—Even with the above changes, some borrowers will need assistance building a business plan, applying for credit, and understanding financing options for their business. This is where business advisory services can play an important role in getting a business credit ready and on a path to success. The American Rescue Plan Act includes funding for technical assistance providers as part of a reauthorized State Small Business Credit Initiative.