Despite the importance of entrepreneurship to our economy, small business owners—particularly women, people of color and other underserved populations—face significant hurdles accessing capital from banks and other traditional sources. According to the Federal Reserve Bank’s 2016 report on minority firms, 40% of firms owned by people of color received the full amount of capital sought, compared to 68% of nonminority-owned firms. Similarly, U.S. Small Business Administration (SBA) loans to women-owned business accounted for only 18% of the total number of SBA 7(a) and 504 loans approved.

While online and other alternative lending products have sprung up to fill this market need, alternative financing operates in an almost entirely unregulated market—making many small business owners vulnerable to predatory practices. To fully realize the economic potential of small businesses, we must ensure greater access and more options for entrepreneurs to obtain responsible capital by enacting the policy recommendations below.

**Promote innovation in small business lending, while ensuring transparency and other responsible practices**

- Pass legislation extending Truth in Lending Act disclosure requirements to small business loans or credit products, similar to California’s small business truth in lending legislation enacted in 2018.

- Promote responsible lending practices by lenders and brokers as set forth in the Small Business Borrowers’ Bill of Rights. Specifically, promote laws and industry practices governing business lending to require: (1) transparency around rates and terms, including APR, (2) non-abusive products, including curbs against the practice of “double dipping,” in which borrowers are double-charged fees when they refinance, (3) responsible underwriting, (4) fair treatment from brokers, (5) nondiscrimination, (6) fair debt collection practices and (7) accurate credit reporting.

- Prohibit “confession of judgment” clauses in small business lending agreements whereby borrowers agree in advance to waive their right to contest any dispute with a lender, often costing them their entire savings. This prohibition has been proposed in the bipartisan Small Business Lending Fairness Act.

- Enforce the existing legal requirement that the Consumer Financial Protection Bureau (CFPB) collect small business lending data as mandated under section 1071 of the Dodd-Frank Act.

- Pass legislation that protects small business owners against predatory debt collectors, especially women and minority-owned businesses who are particularly vulnerable to abusive debt collection practices. Small business owners often use their own capital to finance their business, but do not have the same protections consumers do against collectors.

**Increase entrepreneurs’ access to traditional sources of capital, particularly in underserved communities**

- Strengthen responsible sources of capital by expanding SBA loan programs such as the 7(a) Loan Guaranty Program, the 504 Loan Guaranty Program and the Microloan Program.
• Make the SBA’s 7(a) Community Advantage Pilot Program permanent. This program, which is set to expire in 2022, must make a majority of its loans to underserved markets, such as small firms owned by women, entrepreneurs of color and veterans. Making the program permanent would support entrepreneurs that face greater barriers to accessing business loans.

• Ensure women and entrepreneurs of color get fair access to capital by increasing both funding for Women’s Business Centers, Small Business Development Centers and the Minority Business Development Agency.

• Maintain and expand lending programs for rural entrepreneurs funded through the U.S. Department of Agriculture, including the Rural Microentrepreneur Assistance Program, Rural Business Development Grants and the Intermediary Relending Program.

• Establish policies that encourage venture capital investment for startup businesses to include rural cities and towns, instead of just metro areas.

• Dramatically expand the annual budget of the Community Development Financial Institutions (CDFI) Fund from $250 million to $1 billion.

• Reaffirm the Community Reinvestment Act’s (CRA) mission of stimulating lending in low- and moderate-income areas to ensure business owners in these areas maintain access to capital.

• Establish state banks, such as the Bank of North Dakota, that make low-interest loans for infrastructure, agriculture, affordable housing, student loans and small businesses.

• Quadruple SBA lending guarantees—for example, by raising the maximum guaranteed annual loan amount from $25 billion to $100 billion—and thereby increasing the volume of small business loans guaranteed by the SBA to $1 trillion over the next decade.

• Reduce the risk of small business lending for banks by increasing the loan guarantee percentages from 85% to 90% for loans up to $150,000 and from 75% to 85% for loans between $150,000 and $700,000. This will make it less risky for banks to lend to startups.

• Reduce SBA loan fees to 0% for the guaranteed portion of loans under $150,000 and 1% for loans between $150,000 and $700,000. The current fee structure unnecessarily adds extra costs for small business owners and dampens their ability to get credit.

• Make permanent the New Markets Tax Credit (NMTC), which has helped to attract more than $60 billion in private sector funding to community development financing intermediaries that provide loans to businesses in economically-distressed communities across the United States.

• Enact policies to strengthen and expand community bank lending, which provides more than half of all small business lending. Smart initiatives include encouraging state and local governments to shift public funds into community banks and increasing community bank lending in rural areas.

Promote expanded use of equity investments for small businesses

• Facilitate access to equity financing that directly benefits small businesses within the recently-created Opportunity Zones. This includes requiring reporting metrics that measure program success based on the number of jobs created, where those jobs are located and the number of businesses created, particularly businesses formed by women or people of color.

• Support innovations like equity crowdfunding while ensuring safeguards that make sense for both small business owners and investors. For example, we recommend increasing investment limits for people making less than $150,000 per year. Additionally, we recommend allowing crowdfunding investors to pool their money together into a fund advised by a registered investment adviser, as proposed in the JOBS and Investor Confidence Act.