

THE AGENDA FOR AMERICA'S ENTREPRENEURS

Access to Capital

Access to affordable and reliable capital empowers small businesses to develop and grow into the pillars of our local communities and national economy. However, many small businesses and entrepreneurs, especially minority- and women-owned businesses, often face barriers rooted in long-standing systematic inequities which limit their ability to secure reliable and affordable capital. To address the capital and resource gaps our nation's smallest and under-resourced businesses face, Small Business Majority advocates for policy proposals that foster responsible small business lending practices and increased access to equitable financing tools.

- Increase the availability of small dollar loans by subsidizing microloans under \$100,000 for community based and mission driven lenders, including CDFIs, SSBCI participating lenders, SBA lenders and non-bank lenders. As many public and private lenders continue to expand their average loan size, the needs of small businesses requiring short-term or smaller loans are often unmet.
- Pass the Small Business Financing Disclosure Act (H.R. 4192/S. 2021) which includes priorities outlined in the Small Business Borrowers' Bill of Rights to expand the Truth in Lending Act (TILA) to small business loan products. While current TILA regulations remain critical for consumer lending markets, the small business lending industry has evolved drastically over the last 50+ years and further protections are now required to ensure small business borrowers are not falling victim to predatory lending practices.
- Prohibit "confessions of judgment" clauses, as proposed in the Small Business Lending Fairness Act, 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.
- Explore opportunities to allow responsible non-bank lenders into government guaranteed loan products to increase the availability, speed and volume of loans for small business owners. According to the Consumer Financial Protection Bureau, lending provided by fintech lenders grew from \$1.4 billion in 2013 to \$25 billion in 2019. However, when vetting and licensing more responsible non-bank/fintech lenders, SBA and Congress should require that new fintech lenders adhere to the Borrowers' Bill of Rights (BBOR) to ensure that small businesses can access responsible capital. Ensuring that fintech lenders meet the highest standards when dealing with small business loans has the potential to make more affordable lines of credit available for Main Street.
- Increase federal subsidies to support or offset the transaction costs for lenders making small dollar loans under \$100,000. Many lenders cite that loans under \$100,000 are not profitable enough to underwrite, citing the cost of loan origination, underwriting, operations, loan review, monitoring, collections and compliance which make these loans unattractive to many lenders. The federal government should subsidize the direct costs of loans under \$100,000 for certain mission-driven lenders already participating in federal loan programs to increase the availability of smaller loan options.
- Expand the use of secondary market utilization for federal loan programs by establishing guidelines and processes for federally guaranteed lenders, requiring data on the impact of tapping into secondary markets and providing federal subsidies needed for lenders to reach more borrowers.

- In any attempt to amend regulations to the Community Reinvestment Act, the regulators of the CRA (Federal Reserve, Office of the Comptroller of the Currency, and Federal Deposit Insurance Corporation) must align efforts to drive investment by rewarding small-dollar lending, maintaining commitments to equitable lending and expand incentives that make loan products available to entrepreneurs. Enhancements to CRA activities and enforcement include lowering asset and loan thresholds that cover more banks, strengthening restrictions on mergers and acquisitions due to poor CRA scores and further incentivizing the use special credit initiatives, building upon the success of the 2023 final rule to modernize the CRA.
- Maintain investment in small business capital markets by continuing to fund the State Small Business Credit Initiative (SSBCI) at the Department of Treasury. The program remains critical for increasing the capacity of state-based lenders to reach entrepreneurs and underserved communities. SSBCI was allocated \$10 billion (including \$550 million for technical assistance) through the American Rescue Plan Act and will require funding to support eligible businesses.
- Increase quality of service in government guaranteed lending programs by working to eliminate unnecessary paperwork burdens, long wait times and arduous requirements needed to obtain a small business loan (especially for smaller and express loans). In many cases, small business owners seeking capital must wait upwards of 90 days to obtain financing, which can discourage borrowers from utilizing government loan programs and lead many to seek out payday and predatory loan options.
- Modernize core Small Business Administration (SBA) programs to expand access to training and resources that empower small businesses to leverage modern technology, such as Artificial Intelligence (AI), to streamline and improve their operations. While a significant number of small businesses currently utilize AI, many businesses that have not adopted AI cite cost concerns and a lack of awareness as significant barriers to entry.
- Increase program funding for the Community Development Financial Institution (CDFI) Fund at the Department of the Treasury, including funding for administrative and outreach needs to at least \$325 million. According to 2023 data from the Federal Reserve Bank Small Business Credit Survey, only 6% of small business applicants sought financing from a CDFI. Many CDFIs cite a lack of resources and funding to reach their target community, therefore increasing the Fund amount will create more capital opportunities for entrepreneurs.
- Guarantee the publication of demographic loan data as it relates to small business lending through the implementation of Section 1071 of the Dodd-Frank Act, the Community Reinvestment Act (CRA) obligations to ensure an equitable disbursement of capital.
- Encourage employee ownership formation by lifting the mandatory equity or personal guarantees for employee-owned small businesses seeking capital through the SBA 7(a) loan program by passing the Main Street Employee Ownership 2.0 Act. Congress should also take steps to require SBA to improve their outreach and education for small businesses looking to convert to an employee-owned model.
- Expand access to federal resources and funding for rural small businesses by permanently authorizing the Rural Partners Network. This will strengthen on-the-ground collaboration between the U.S. Department of Agriculture (USDA), SBA and local stakeholders, facilitating smoother access to federal programs for rural small business lenders and entrepreneurs.
- Remove barriers to capital for cannabis-based businesses operating in legal state jurisdictions by passing comprehensive cannabis banking reform through the SAFER Banking Act, which would provide protections to institutions that lend to legal and registered businesses. These efforts should be coupled with efforts to enable small cannabis-based businesses to work with SBA and SBA resource partners.