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**WRITTEN STATEMENT FOR THE RECORD BEFORE THE U.S. HOUSE  
COMMITTEE ON FINANCIAL SERVICES**

**“MAKE COMMUNITY BANKING GREAT AGAIN”**

February 5, 2025

John Arensmeyer

Founder & CEO, Small Business Majority

Dear Chair Hill, Ranking Member Waters and members of the House Committee on Financial Services:

As a leading representative of America’s 34 million small businesses, Small Business Majority is pleased to offer written testimony to the House Committee on Financial Services in advance of its hearing on community banking to underscore the vital role responsible lending practices play in expanding access to capital for small businesses and entrepreneurs nationwide.

Small Business Majority is a national small business organization that empowers America’s diverse entrepreneurs to build a thriving and equitable economy. From our 11 offices across the country, we engage our network of more than 85,000 small businesses and 1,500 business and community organizations to deliver resources to entrepreneurs and advocate for public policy solutions that promote inclusive small business growth. Our work is bolstered by extensive research and deep connections with the small business community that enables us to educate stakeholders about keys issues impacting America’s entrepreneurs, with a special focus on the smallest businesses and those facing systemic inequities.

According to decades of financial research, it has become quite clear that today’s banking system is not adequately serving American communities. Systemic discrimination remains ever-present in our financial services sector leaving borrowers historically impacted by redlining, discrimination and those lacking strong relationships to the financial sector unserved. When it comes to entrepreneurship and the ability to pursue the American Dream, the opportunity to start and grow one’s own business is a dream that can feel out of the grasp of many. For example, data from the 2023 Small Business Credit Survey found that 56% of white-owned small businesses were fully approved for a loan, line of credit or merchant cash advance that they had applied for, compared to just 32% of Black and Hispanic owned businesses.<sup>1</sup> Additionally, previous national polling conducted by Small Business Majority found that while roughly 19% of small business owners overall obtained less capital than they sought, that number is higher among AAPI (36%), Black (31%) and Latino (26%) small business owners.<sup>2</sup>

When it comes to the small business lending market, the data is less clear, but the outcomes and experiences are like those of the traditional financing market. While the outcomes point to evidence of discriminatory lending practices by institutions large and small, we lack access to the data that would inform better public policy solutions to ensure that the American Dream is accessible to all who have the means to pursue it. Small business owners account for nearly half of the private sector workforce,

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<sup>1</sup> “2024 Report on Employer Firms: Findings from the 2023 Small Business Credit Survey.” Federal Reserve System. March 2024. <https://www.fedsmallbusiness.org/reports/survey/2024/2024-report-on-employer-firms>

<sup>2</sup> “Small businesses struggling to access capital, harming their financial recovery.” Small Business Majority. February 2021. <https://smallbusinessmajority.org/our-research/access-capital/small-businesses-struggling-access-capital-harming-their-financial-recovery>

representing 99% of all businesses in the United States, making it incredibly more important that creditworthy entrepreneurs obtain the capital they need.

For these reasons, Small Business Majority urges very strong caution against dismantling current progress made towards responsible, data-driven lending practices. We strongly supported the Consumer Financial Protection Bureau's (CFPB) finalization of Section 1071 of the Dodd-Frank Act, which requires lenders to collect small business demographic and financial information. The data collected from Sec. 1071 will provide critical information that helps financial institutions and policymakers better understand how successful they are in lending to minority-owned, SEDI-owned and rural businesses. In other words, this data is key towards ensuring that today's lending markets are geared towards granting loans and fulfilling capital needs based on financial history, capital readiness and creditworthiness, not based on demographics.

While opponents of the rule state that requiring this information is “an overreach” or “unnecessary” or “burdensome” on small entities like community banks and large institutions alike, evidence shows that this information is not only necessary but critical towards helping small businesses and entrepreneurs succeed in today's increasingly volatile economy. Women and minority owned businesses continue to face discrimination in securing financing due to several compounding factors, including lower credit, a lack of assets and fewer banking relationships which in turn has limited many minority owned firms' ability to gain traction in their industry. Due to these factors, Black-owned businesses are up to twice as likely to be denied financing compared to white-owned firms.<sup>3</sup> These disparities may discourage minority-owned businesses from seeking capital or make it increasingly likely for them to fall victim to predatory or high-interest loans which significantly increases the likelihood that they will have to shut their doors for good.

Women and minority communities have historically faced discrimination in securing small business funding, and an estimated 90% of women and minority-owned small businesses have been shut out of federal emergency funding.<sup>4</sup> Therefore, transparency requirements in small business lending moving forward will help uncover discrimination or biases in underwriting that has historically plagued millions of small businesses for generations across our nation. Reporting this data will also increase transparency in terms and conditions for small business loan applications. Data collected through Section 1071 will likely curb excessive pricing and increase access to credit for creditworthy borrowers that have faced non-financial barriers in their capital access journey.

While the title of this hearing is ironically to “Make Community Banking Great Again” the decision to repeal Sec. 1071, ignoring the intent and decades of research proving that such regulation is necessary, would make American financial institutions and America's small business community worse in the long run. If made available, the data would inevitably force more responsible lending practices based on true economic indicators, not race, gender or tribal affiliation, but on a borrower's ability to pay back a loan and to create and grow a successful business.

Community-focused advocates have been eagerly awaiting the implementation of Section 1071 so that we can better understand the small business lending landscape. As when the rule faced challenges in a federal court in 2023, we are deeply concerned with the direction that the small business market is heading and absent any protections for borrowers to fend against discriminatory denials and refusals, small business owners will continue to feel the pain and seek out far more costly and opaque credit products commonly found in many payday or predatory lending business models.<sup>5</sup> 1071 would not only bring light to the disparities in lending by demographic, but would reveal more troubling business practices that are worthy

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<sup>3</sup> “Breaking Barriers to Credit and Capital Access for Black, Latinx, and Women-Owned Businesses.” The Rockefeller Foundation. August 2020. <https://www.rockefellerfoundation.org/perspective/breaking-barriers-to-credit-and-capital-access-for-black-latinx-and-women-owned-businesses/>

<sup>4</sup> “Shut out of PPP loans, struggling with no child care: How Covid-19 is impacting women-owned small businesses.” CNBC. May 2020. <https://www.cnbc.com/2020/05/07/how-covid-19-is-impacting-women-owned-small-businesses.html>

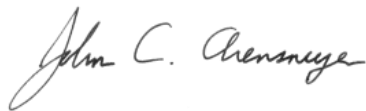
<sup>5</sup> “Report on Minority-Owned Small Businesses.” Federal Reserve Bank of Atlanta. January 2020. <https://www.atlantafed.org/community-development/publications/partners-update/2020/01/200108-report-on-minority-owned-small-businesses>

of a bipartisan commitment to combat including misleading disclosures of APR or Estimated APR, or an outright lack of important financing information prior to taking out a loan – a commonly cited barrier by the Federal Reserve Bank of Cleveland.<sup>6</sup>

We not only urge the Committee to reconsider but caution against undoing what would have been the most important regulation for small business financing when it comes to leveling the playing field for America’s entrepreneurial community. Small businesses make America great and to repeal key regulations designed to boost entrepreneurship is blatantly ignoring a lending epidemic that is unique to our history. We hope to work with the Committee to ensure that all entrepreneurs who are indeed ready to take on additional capital and start or grow their business have the ability to do so on their merit, not on their demographic background.

For any questions or additional information, please contact our Government Affairs Director, Alexis D’Amato, at [adamato@smallbusinessmajority.org](mailto:adamato@smallbusinessmajority.org).

Sincerely,



John Arensmeyer  
Founder & CEO  
Small Business Majority

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<sup>6</sup> “Clicking for Credit: Experiences of Online Lender Applicants from the Small Business Credit Survey.” Federal Reserve Bank of Cleveland. August 2022. <https://www.clevelandfed.org/publications/cd-reports/2022/sr-20220816-clicking-for-credit-experiences-of-online-lender-applicants-from-sbcs>