SMALL BUSINESS MAJORITY

WRITTEN STATEMENT FOR THE RECORD BEFORE THE U.S. HOUSE COMMITTEE ON SMALL BUSINESS

"DRIVING ECONOMIC GROWTH: SBA LENDING PROGRAMS AND THE VITAL ROLE OF COMMUNITY BANKS"

February 21, 2025

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Dear Chair Williams, Ranking Member Velazquez and members of the House Committee on Small Business:

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 Small Business in response to the recent hearing on Small Business Administration (SBA) lending programs and community banks.

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.

Access to capital remains the number one priority for the majority of small businesses nationwide, as it provides them with the ability to start and grow their enterprises from the ground up. Small businesses represent 99% of all American businesses and employ nearly half of our nation's private workforce, making it that much more important for creditworthy entrepreneurs to have a fair shot at obtaining the capital they need. When local small businesses are denied financing or receive less capital than they had planned for, it can have ripple effects across their communities and local economies. Without adequate financing, small businesses may struggle to hire the additional local employees needed for growth, miss opportunities to invest in essential equipment, or, in some cases, be forced to close, resulting in job losses and vacant storefronts.

While all small businesses require capital at some point in their business journey, the process of securing financing from traditional financial institutions can often be a drawn out and cumbersome process for the small businesses that need it the most. This is especially apparent for small businesses in underserved communities that often face barriers rooted in long-standing systemic inequities and discriminatory lending practices which have gone unchecked due to insufficient small business lending data. Due to the numerous barriers small businesses encounter when seeking capital from traditional lenders, Small Business Majority urges the Committee to work in a bipartisan manner to strengthen and expand access to SBA lending programs, nonprofit mission-driven lenders and community banks, which offer more tailored and direct financial solutions for the nation's smallest businesses.

Congress must protect Section 1071 of the Dodd-Frank Act to increase transparency in small business lending

The data, or lack thereof, has made it quite clear that today's banking system is not equitably serving American communities or the small businesses that support them. 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.[1] 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.[2]

These vast disparities in small business lending have been allowed to persist for decades in large part due to the lack of access to transparent small business lending 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. For these reasons, Small Business Majority cautions Congress against dismantling the 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.

Transparency requirements in small business lending moving forward will help uncover biases in underwriting that have 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 which will help combat small businesses falling victim to predatory, high-interest loans that may eventually force them to close their doors. 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. Sec. 1071 must be preserved to help small businesses and entrepreneurs access capital in today's increasingly volatile economy.

Expand access to capital for underserved small businesses by strengthening small dollar loan programs and protecting SSBCI funding

Many lenders cite that loans under $100,000 are not profitable enough to underwrite, reporting that the cost of loan origination, underwriting, operations, loan review, monitoring, collections and compliance which make these loans unattractive to many lenders. However, micro-businesses, which are small businesses with ten or fewer employees, both do not need and cannot afford larger loans and therefore struggle to access the capital needed to grow. The federal government should subsidize the direct cost of loans under $100,00 for certain mission-drive lenders already participating in federal loan programs to increase the availability of smaller loan options for small business owners.

While many SBA lending programs, most notably the 504 and 7(a) programs, are structured in a way that provides small businesses with larger loans up to $5 million, the agency's Microloan Program works with non-profit, community based intermediary lenders, like Community Development Financial Institutions (CDFIs) and community banks, to provide small dollar microloans to underserved small businesses. In 2023 alone, it delivered $87 million in funding to over 5,500 small businesses, with 35% of loans

[1] "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
[2] "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

supporting Black-owned businesses and 15% benefiting Latino-owned businesses.[3] SBA reports that the average microloan made through the program is just $13,000, with a maximum loan size of $50,000, which is often an adequate size for the smallest businesses that may need financing for minor investments or one-time expenses.

Since these non-profit intermediary lenders are able to provide more direct and tailored financing tools to small businesses in the communities they serve, we urge the Committee to strengthen and expand the SBA's Microloan Program to increase the number of intermediary lenders serving underserved communities in the program. Expanding the scope of the Microloan Program is essential for the thousands of small businesses seeking financing through SBA-approved lenders and programs, but do not require, or qualify for, the typically larger loan amounts offered by the flagship 7(a) and 504 programs.

Another crucial effort to extend capital access to entrepreneurs is the State Small Business Credit Initiative (SSBCI) at the U.S. Department of Treasury, which provided nearly $10 billion to support small business ownership and expand access to capital across the country. In its first two years, SSBCI covered almost 3,900 transactions supporting over 3,600 small businesses, which are expected to help create or retain over 46,200 jobs.[4] The $750 million spent of SBBCI funding supported transactions that resulted in $3.1 billion in overall new financing, including $2.6 billion in private financing. This funding supported the smallest businesses, with a median amount of new financing of $87,700 and with 78% of overall transactions supporting businesses with fewer than 10 employees. We urge Congress to protect the undisbursed SSBCI funds for capital access programs and its necessary administrative funding so that investment in the small business capital market continues across communities nationwide.

SBA firings and federal funding freezes will wreak havoc on small businesses

Every year, millions of small businesses turn to the SBA for support through their capital access, disaster relief, technical assistance, and mentoring programs which all play a critical role in the development and growth of both new and established businesses. Given the scale of these programs and the number of small businesses seeking assistance through them, the SBA requires a robust and talented workforce, particularly at state and district offices, to ensure small businesses are receiving the support they need. While concerns over SBA staffing levels have been raised over the last several years, the agency, under the direction of the Department of Government Efficiency (DOGE), recently fired over 700 employees, a roughly 20% cut to the agency's already dwindling workforce.

These recent firings have raised significant doubts about the SBA's ability to adequately serve the millions of small businesses that rely on SBA for everything from launching to expanding to surviving natural disasters. A 20% cut to the workforce of an agency that delivered over $50 billion in financing to small businesses in fiscal year (FY) 2024 will undoubtedly cripple the SBA's ability to support the over 20 million new small businesses that filed business applications over the last four years.[5] Small Business Majority urges the Committee to work with recently confirmed SBA Administrator Kelly Loeffler to bring these reckless firings to a halt and instead focus on building a strong, capable workforce ready to serve America's 34 million small businesses.

In addition to the recent firings at the SBA, the Trump administration's decision to freeze nearly all federal grants and loans, including SBA capital access loans and disaster loans, has led to uncertainty among the small business owners that rely on federal funding to not only support their business, but the economic wellbeing of themselves and their employees. The impacts of this unprompted funding freeze stretch across a wide range of programs and agencies that serve the small business community – from

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[3] "SBA Announces Biden-Harris Administration's Progress in Small Business Lending with End-of-Year Capital Program Numbers." U.S. Small Business Administration. November 2023. https://www.sba.gov/article/2023/11/21/sba-announces-biden-harris-administrations-progress-small-business-lending-end-year-capital-program
[4] "U.S. Department of the Treasury Releases New Report Showing State Small Business Credit Initiative Has Supported $3.1 Billion in New Financing for Small Businesses." U.S. Department of the Treasury. November 25, 2024. https://home.treasury.gov/news/press-releases/jy2728
[5] "New Report Reveals Historic Surge in Small Business Financing Under Biden-Harris Administration." U.S. Small Business Administration. October 2024. https://www.sba.gov/article/2024/10/24/new-report-reveals-historic-surge-small-business-financing-under-biden-harris-administration

SBA loans to childcare subsidy programs to the undisbursed SSBCI funding that communities are relying on the strengthen their local economies. To underscore the impacts on Main Street, we are submitting the following quotes from business owners in our network for the record:

Valerie McCaw, President, VSM Engineering, LLC - Kansas City, MO: "I am concerned as I am a Women's Business Enterprise (WBE) Civil Engineering firm. The majority of our revenue is from local and state governments, but it is mostly funded by the federal infrastructure bill. That bill is creating and keeping jobs in every state for both small and big businesses. If that funding was frozen, it would have a huge impact on my business. Additionally, women-owned businesses like mine benefit from DEI programs, which creates roughly 40 to 60% of my annual revenue. I could take a big hit next year, and my employees would lose their jobs if I went out of business."

Janna Rodriguez, President, The Innovative Daycare Corp - Freeport, NY: "I haven't applied for an SBA loan yet, as my previous deal for a building fell through. However, my plans for expansion are currently on hold due to the ongoing uncertainty surrounding SBA funding. Right now, there's a lot of concern about whether these funds will remain available, how they'll be distributed, and what the long-term effects might be for small businesses—especially those in the childcare sector, which already faces significant financial and regulatory hurdles. Given these uncertainties, we're actively exploring alternative funding options to determine the best path forward if we decide to move ahead with our expansion. The childcare industry depends heavily on stable and accessible funding to ensure providers can continue delivering high-quality early education services. Any disruptions in SBA lending directly impact our ability to meet the growing demand for childcare, particularly in underserved areas. The current lack of clarity around funding makes an already complex financial landscape even more challenging for providers.

Additionally, my business relies almost entirely on subsidies from both federal and state sources. Nearly all the families we serve receive assistance through programs like the Child Care Assistance Program (CCAP). If there were a freeze on these subsidies at the federal level—or any disruption in state funding—it could put our entire operation at risk. Without these essential funds, many families simply wouldn't be able to afford childcare, forcing parents—especially those in low-income and middle-class households—to leave the workforce. This would have far-reaching consequences, not just for working families but for the broader economy, exacerbating labor shortages and deepening the disparities in early education access. We remain deeply concerned about the stability of SBA funding and the continued availability of federal and state childcare subsidies, which are critical for both families and providers. Ongoing investment in early childhood education isn't just about supporting businesses—it's an essential part of workforce development and community stability."

Leo Carr, President, The Elite Group - Southfield, MI: "While Congressional approval is required to close down the U.S. Department of Education, it could happen with this congress. If it does, it would have huge ramifications to our business and industry. Abolishing this agency would stop the distribution of billions of dollars in federal education funding for Title I funds for low-income schools, special education funding (IDEA) and Pell Grants for college students which would severely disrupt these programs as states and local districts struggle to replace lost funds. It would also impact students with disabilities, low-income students and minority students because the department enforces civil rights protections that prevent disparities in education quality. Federal funding also balances for underprivileged communities, and removing it could widen the gap in education quality between wealthy and low-income school districts.

Additionally, many states rely on federal funding and policy guidance to ensure consistent educational standards and may lack the resources or infrastructure to manage education funding effectively without federal assistance. Furthermore, dismantling a federal department requires extensive legislative action and restructuring, which could take years and create legal complications. Meanwhile, many programs administered by the department would need to be transferred to other agencies or to state governments, which could lead to confusion and inefficiencies.

I oppose all efforts to close the U.S. Dept. of Education, which could interfere with our ability to maintain our business.. The closure or interruption of our educational processes would result in Americans being unprepared academically and having insufficient knowledge and skills to enter the workforce. This would devastate small and large businesses alike."

Congress should work to expand access to capital and reject cuts to the programs that small businesses utilize every day

Access to capital is vital for small businesses, enabling entrepreneurs to launch their ventures and helping established businesses secure financing for expansion. While capital remains a priority for all businesses, underserved small businesses are often shut out of financing opportunities based off numerous barriers including the size of their business, lower credit, a lack of assets, and the absence of robust small business lending data that can help lenders make more informed decisions. Small Business Majority urges the Committee to expand access to equitable, affordable capital for underserved small businesses by supporting small-dollar loan programs, ensuring the continued disbursement SSBCI funding, and upholding Sec. 1071 protections, all of which will contribute to the growth and success of local small business economies.

Additionally, recent SBA firings and the unprecedented federal funding freeze undermine the federal government's efforts to support small businesses and instead creates uncertainty among small businesses that rely on the SBA and other federal programs for their sustainability and growth. We urge Congress to bring a halt to these harmful, unilateral decisions as they directly impact Main Street businesses and the millions of Americans they employ.

We appreciate the Committee for holding this important hearing and its work to uplift the small business community. For any questions or additional information, please contact our Government Affairs Director, Alexis D'Amato, at adamato@smallbusinessmajority.org.

Sincerely,

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