SMALL BUSINESS MAJORITY

July 27th, 2022

Docket (R-1769)

RIN (7100-AG29)

RE: 2022 Interagency Notice of Proposed Rulemaking

To Whom It May Concern:

As a leading representative of the 31 million small businesses in America, Small Business Majority is writing in response to the proposed joint rule on the Community Reinvestment Act.

Small Business Majority is a national small business organization that empowers America's diverse entrepreneurs to build a thriving and equitable economy. 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 enable us to educate stakeholders about key issues impacting America's entrepreneurs, with a special focus on the smallest businesses and those facing systemic inequities.

Overall, we are pleased with the revisions made to the rule based on feedback from our organization and other stakeholders. We especially appreciate how the revised rule better defines what community activities related to entrepreneurial activity will be considered allowable under the new definitions. We also applaud efforts to align size and activity definitions with those of other federal, state, local and tribal programs and agencies, SBDCs and SBIC, and the recognition of the role that MDIs, community financing and technical assistance play in small firms' development.

While we continue to advocate for a lower revenue threshold for size standards to better serve the needs of microbusinesses, we are encouraged to see the agency consider size standards defined under Dodd-Frank for businesses with under $5 million in annual gross revenue. As we saw during the deployment of the Paycheck Protection Program (PPP), outdated size standards allowed much larger companies claim the bulk of PPP dollars compared to small, microbusinesses that make up the vast majority of small firms in this country.

In considering size standards under Dodd-Frank, however, we also strongly urge the agency to also leverage race data collected under Section 1071 of Dodd-Frank to better track how successful financial institutions are lending in communities of color, thus fulfilling the original promise of the Community Reinvestment Act. Growing economic inequality in communities of color demonstrates that using LMI indicators alone is insufficient in closing the racial wealth gap. This could be done under the impact review of the Retail Lending Test for small firm loans or other evaluations leveraging 1071 data collection.

Below, we also would like to use this opportunity to directly respond to a few questions posed in the NPR:

Question 11.

We are pleased to see the qualitative analysis in the Retail Lending Test of small business firms with less than $250,000 in annual revenue. The access to capital gap is primarily prevalent for these smaller firms, particularly those seeking loans under $100,000. Any capital infusion invariably aids job creation and retention (in the case of the owner, at least). We also encourage the agencies to ensure that the small business component of the Retail Lending Test accurately measure and test all business lending made to smaller firms, including through the offering of business credit cards, and to ensure that these products are offered responsibly and sustainably (such as by examination of Annual Percentage Rate).

Question 12.

Yes. Banks should not be allowed during a transition period to disregard or ignore its previously considered loan activity for small businesses and small farms until the new rules are firmly implemented. Small firms continue to struggle from the lingering economic effects of the pandemic and looming recession, and their need and demand for capital remains high. This is particularly true for entrepreneurs in under-resourced communities. Removing the requirement that banks track this activity during a transition period would be extremely detrimental to these businesses and long-term community wealth-building.

Question 13.

We are principally concerned that lending activity to small firms in under-resourced communities continue to be measured accurately, and that successful testing demonstrates adequate levels of such activity. If any measure of job creation and retention were to be retained, we advocate that it solely be those undertaken by smaller firms. We recognize the data collection challenges inherent to measure job creation and retention noted in the RFP. We are somewhat concerned about including workforce training programs as part of community development test, as we know from our past research that small firms are less likely to participate in such training programs due to lack of right training offered, time and complexity. Instead, we've found that many smaller firms provide on-the-job-training themselves. An appropriate measure could be to count as "community development activity", any loan or technical assistance provided through an intermediary to firms with a stated and documented training program in place for their employees.

Question 27.

We want to ensure that any allowed financial literacy activities should also include those for entrepreneurs or business owners in LMI communities, and among targeted demographic populations.

Question 36.

We are pleased to see the qualitative analysis in the Retail Lending Test of small business firms with less than $250,000 in annual revenue. The access to capital gap is primarily prevalent for these smaller firms, particularly for loans under $100,000. If an alternative were to be considered, we recommend only lowering the threshold to $100,000, not increasing it.

Question 62.

As noted earlier, we have previously recommended smaller revenue definitions for small businesses to ensure that CRA activity is adequately benefiting microbusinesses across the country. However, we agree with the direction to tie the size standard to the Dodd-Frank regulations to better align reporting and data collection requirements. The impact assessment in the Retail Lending Test to firms with under $250,000 in gross revenue should also mitigate any adverse impacts of tying the examination to this size standard. We also agree with the proposal to tie future compliance to changes in Section 1071 Rulemaking. Again, though, we also encourage the agencies to include in its rulemaking requirements that banks are sufficiently lending to

Small businesses play tremendous roles in driving economic activity and supporting job creation. The CRA is overdue for reform, but changes to CRA regulations must further encourage small business lending, especially to underserved entrepreneurs. Changes must address the credit and funding gaps of low- and moderate-income borrowers and entrepreneurs of color, not further reduce their ability to find much needed capital or credit. We are appreciative of the opportunity to comment on this important topic for our nation's small business owners.

Sincerely,

John Arensmeyer
Founder & CEO