**Testimony before the Senate Committee on Banking, Housing, and Urban Affairs**
**Hearing on "The Coronavirus Crisis: Next Steps for Rebuilding Main Street"**
**February 25, 2021**

**Jessica A. Milano**
***Board Member, Small Business Majority***

I would like to thank Chairman Brown, Ranking Member Toomey, and all of the distinguished members of the committee for inviting me to testify today.

I am currently a member of the Board of Directors of Small Business Majority, a national small business advocacy organization that empowers America's entrepreneurs to build a thriving and equitable economy, and a Senior Advisor to Calvert Impact Capital, a mission-driven financial services firm that has played a key role in helping structure several small business recovery funds since the pandemic began. I previously served as Deputy Assistant Secretary for Small Business, Community Development, and Housing Policy at the US Treasury during the Obama Administration where I oversaw the Small Business Lending Fund (SBLF) and the State Small Business Credit Initiative (SSBCI) programs responsible for providing credit to Main Street businesses after the financial crisis. I am appearing today as a private citizen and the views expressed here are my own and should not be attributed to any of the organizations I just mentioned.

Given my background, my testimony today focuses on the critical role small businesses play in our economic recovery. Small businesses are the foundation of our communities and the largest single source of new job growth in our economy. Over the last two decades, small and new businesses have been responsible for creating 2 out of every 3 net new jobs.[1] Importantly, these jobs are often the high-quality, higher-paying jobs that provide pathways to the middle class. Fully half our country's private sector workforce works for a small business. The pandemic has had a profound impact on communities across America but has been especially challenging for small businesses, particularly those owned by people of color, women, and immigrants. Pandemic restrictions and the decline in consumer demand has pushed many small businesses to the brink of failure and beyond. Rebuilding an inclusive economic recovery means ensuring small businesses have the tools and resources they need to come back stronger than before.

In my testimony today, I wish to discuss three important points:

- Many of the communities hardest hit by the pandemic have been communities of color;

- Despite significant Federal support, minority-owned businesses continue to experience challenges accessing capital; and

- Congress should reauthorize the State Small Business Credit Initiative to address these market gaps.

Let me discuss these in turn.

**Many of the communities hardest hit by the pandemic have been communities of color.**

Small businesses are the foundation of healthy, vibrant communities. They are the places we gather to share a meal and they provide the critical services we could not live without like the small local grocer, dry cleaner or neighborhood coffee shop. Whether in rural towns, urban neighborhoods, or middle class suburbs, thriving successful small business owners serve as role models in their communities and mentors to the next generation. They are an important source of jobs and provide tangible examples of the diverse pathways that can be taken to achieving the American dream. It is impossible to discuss economic opportunity in America without addressing how to support small businesses.

The effects of the pandemic on small businesses amid forced closings, modified re-openings, and weakened demand, are well documented and well understood by this committee. I would however like to draw attention to the disproportionate impact the pandemic has had on communities of color. Many of the communities hardest hit by the pandemic have been communities of color. Research from the NY Fed released in August found black-owned businesses are more likely to be located in counties with higher incidence of Covid-19 and also are highly concentrated in retail, restaurants, and other service industries most affected by shutdowns and social distancing.[2] To make matters worse, these businesses often had weaker cash positions and weaker bank relationships before the pandemic leaving them particularly vulnerable to the economic shock that followed.[3]

While the first round of the Paycheck Protection Program (PPP) is estimated to have reached up to 74 percent of small businesses nationally,[4] “these loans reached only 20 percent of eligible firms in states with the highest densities of Black-owned firms, and in counties with the densest Black-owned business activity, coverage rates were typically lower than 20 percent.”[5]

Given this data, it is unfortunately not surprising that more entrepreneurs of color report they may close their business in the next three months. According to recent polling from Small Business Majority, nearly 1 in 3 Black and Latino business owners report they may be forced to temporarily close compared to 21 percent of white business owners. An additional 18 percent of Black and Latino entrepreneurs report they are likely to permanently close their business in the next three months, compared to 14 percent of white small business owners.[6]

The impact of losing these businesses is two-fold: first on the business owner themselves, and second on the communities they serve. While vaccines have brought hope social distancing restrictions may ease this year, it is hard for Main Streets to come back to the bustling centers they were before the pandemic when so many businesses have shuttered permanently. Preventing this means addressing the market gaps that exist in accessing capital.

**Despite significant Federal support, minority-owned businesses continue to experience challenges accessing capital.**

The Federal government's most significant source of relief to small businesses during the crisis has been the Paycheck Protection Program (PPP), which provides low cost, forgivable loans to support payroll initially but today can be applied to other qualified business expenses as well. This relief surely helped prevent higher unemployment and helped many larger, employer small businesses survive the last year.

What we learned from PPP is that businesses that were underbanked prior to the pandemic had trouble accessing these loans. Non-employer firms, like the self employed, and small business owners of color were much less likely to have a business banking relationship pre-pandemic—31 percent of Black-owned businesses, 28 percent of AAPI-owned businesses, and 26 percent of Latino-owned business owners lacked business banking.[7] When the pandemic hit, emergency programs implemented by the SBA favored national 7(a) lenders and their clients. While well intentioned, smaller community lenders that had not previously done a high volume of SBA loans found it confusing or difficult to utilize the program, leaving their clients shut out. And businesses without strong banking relationships pre-crisis were even further at the back of the queue.[8]

According to Small Business Majority's polling, roughly 4 in 10 small business owners had not obtained any capital pre-pandemic like loans or lines of credit from any lending institution including 31 percent of Black-owned businesses and 38 percent of Latino-owned businesses. These loose ties to the banking sector meant relatively few small business owners surveyed by Small Business Majority were able to secure funding through federal small business relief programs. While roughly 1 in 3 applied for a PPP loan, only a third received the full amount requested, and the number was even lower for minority-owned businesses—23 percent of Black-owned businesses, 23 percent of AAPI-owned businesses and 27 percent Latino-owned businesses received the full amount.[9]

This data is not a criticism of PPP but highlights the challenges policymakers face in helping capital reach businesses and communities historically underserved and underbanked by traditional lenders. PPP also does not support new businesses. Because of the program's initial focus on reducing unemployment and supporting businesses impacted by the pandemic, new businesses formed in the last year are not eligible. However, a silver lining of the pandemic has been the number of new business starts.

According to data from the US Census Bureau, compiled by Economic Innovation Group, "In 2020, there was an explosion in new business applications, reaching nearly 4.5 million by year's end—a 24 percent increase from 2019 and 51 percent higher than the 2010-19 average."[10] It is too soon to tell how many of these small businesses will survive but the data is encouraging because it reverses a decades long decline in new business formation and shows how entrepreneurship can help lead the way out of the crisis.

The next phase of the recovery will be to move beyond the short-term relief PPP provided to focus on small business support that complements PPP by helping to address these credit gaps and provides incentives for innovative private financing and flexible local support to help build vibrant small business ecosystems that are stronger than before.

**Congress should reauthorize the State Small Business Credit Initiative to address these market gaps.**

As the committee hears proposals to help rebuild Main Street small businesses, I'd like to recommend reauthorization of the State Small Business Credit Initiative (SSBCI) and share my experience working on the program. SSBCI complements other federal programs by filling market gaps these programs do not cover, such as guaranteeing loans from CDFIs, financing non-profits, and supporting equity financing for high-growth potential businesses. It also helps build local lending and investment capacity to help support historically underserved businesses.

SSBCI was funded with a one-time authorization of $1.5 billion through the Small Business Jobs Act of 2010. It was a new program and a true experiment borne of the need to jump start small business lending and investment during the financial crisis. The program worked by allowing states to set-up their own small business support programs targeted to local economic needs. It was so flexible there were just two primary requirements: 1) states had to establish at least one from a list of 5 possible credit or equity programs; and 2) states had to provide a plan for leveraging $10 of new private sector small business financing for every $1 of SSBCI funds expended.

Unlike other Federal programs, like those administered by the Small Business Administration for example, it was not a one-size-fits-all approach with uniform national requirements. Some communities chose to target micro-businesses while others targeted manufacturers or high-tech companies. Each state has its own needs and, with them, developed a unique set of partners to administer the programs. In total SSBCI funded 154 programs nationwide, over 80 of them new, and dedicated $1 billion to lending programs and over $400 million to venture capital programs targeting investment in early stage businesses.[11]

The program succeeded in providing capital to very small and young businesses. Eighty percent of SSBCI loans or investments supported businesses with 10 or fewer full-time employees and nearly half the supported businesses were less than five years old. It also addressed capital needs in low- and moderate-income (LMI) areas, 42 percent of SSBCI loans or investments were were made to businesses in LMI communities.[12]

This was achieved because the program partnered with often smaller community lenders and community development financial institutions (CDFIs) that exist to meet the unique needs of historically underbanked communities. The CDFI industry has operated for more than 40 years to serve these businesses with capital and advisory services. Today, CDFIs are on the front lines of the current health and economic crisis and are often the first touchpoint for a struggling local business owner seeking help.

During the last year, some states have sought to leverage CDFIs ability to reach historically underbanked and minority-owned small businesses by capitalizing their own small business support programs. In May New York launched the New York Forward Loan Fund, a $100 million fund managed by Local Initiatives Support Network (LISC), a CDFI that works with other New York-based CDFIs to provide low cost working capital loans to small businesses and nonprofits with fewer than 50 employees and that have been negatively impacted by the pandemic. And in November California followed with the California Rebuilding Fund, a public-private partnership that drives capital from private, philanthropic and public sector resources to CDFIs so that they can extend affordable, flexible capital to small businesses they serve. Both programs are leveraging CDFIs target market and mission to reach small businesses that were unable to access other Federal assistance programs.

To date, the programs have reached over 1,000 of the hardest to reach small businesses across their states, with 77 percent loans to businesses either located in a LMI census tract or owned by a historically underbanked population including businesses owned by women and people of color. These businesses are the smallest of the small; 76 percent of businesses that have received loans have 5 or fewer full-time employees and 21 percent of businesses are sole proprietorships.

The current proposal to reauthorize SSBCI at $10 billion in funding would help make these programs available in more states and help more small businesses access affordable loans beyond March 31, 2021 when PPP is set to end. Also, by providing flexible working capital and other forms of small business credit and investment products SSBCI would address the gaps left by PPP and help more small businesses keep the doors open so when restrictions are lifted they are ready to welcome back customers and are stronger and more resilient than before.

**Conclusion**

The pandemic has touched all of our lives and many of us look forward to the day we can gather together and enjoy the interaction of a crowded Main Street again. In order to build the communities we want to live in and support economic opportunity and inclusivity for ourselves and our neighbors, we need to support our small businesses and ensure they have the resources to retool, reopen, and thrive.

## Endnotes

[1] Small Business Administration, "Frequently Asked Questions," June 2016.

[2] Mills, Claire Kramer and Jessica Battisto, "Double Jeopardy: Covid-19's Concentrated Health and Wealth Effects in Black Communities," Federal Reserve Bank of New York, August 2020.

[3] Ibid.

[4] US Census Bureau, "Small Business Pulse Survey: Tracking Changes During The Coronavirus Pandemic." Data as of January 10, 2021, available at: https://www.census.gov/data/experimental-data-products/small-business-pulse-survey.html

[5] Mills, Claire Kramer and Jessica Battisto, "Double Jeopardy: Covid-19's Concentrated Health and Wealth Effects in Black Communities," Federal Reserve Bank of New York, August 2020.

[6] Small Business Majority, "Scientific Opinion Poll: Small Businesses Continue to Face Closures in 2021," January 27, 2021.

[7] Small Business Majority, "Scientific Opinion Poll: Small businesses struggling to access capital, harming their financial recovery," February 17,2021.

[8] Wall Street Journal, "PPP Small Business Loans Left Behind Many of America's Neediest Firms," June 17, 2020.

[9] Small Business Majority, "Scientific Opinion Poll: Small businesses struggling to access capital, harming their financial recovery," February 17,2021.

[10] Economic Innovation Group, "The Start Surge? Unpacking 2020 Trends in Business Formation, February 8, 2021.

[11] US Department of the Treasury, "State Small Business Credit Initiative: A Summary of States' 2016 Annual Reports," July 24, 2017.

[12] Ibid.