

March 31, 2025

The Honorable French Hill
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

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 write in response to the House Committee on Financial Service's request for feedback on several pieces of legislation, most notably the 1071 Repeal to Protect Small Business Lending Act (H.R. 976), which would impact small businesses' ability to access affordable and reliable capital.

Small Business Majority is a national small business organization that empowers America's diverse entrepreneurs to build a thriving and equitable economy. From our 12 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.

Significant gaps persist in small business lending which disproportionately impact under-resourced entrepreneurs

According to decades of financial research, it has become quite clear that today's banking system is not adequately serving American communities. 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 reach for 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 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 Additionally, while rural communities have a higher reliance on physical bank branches and smaller community banks, the number of commercial bank branches in rural areas has declined substantially over the past decade and between 2012 and 2017: 40% of rural counties lost bank branches.³ As bank branches close, it will become increasingly difficult for rural entrepreneurs to access affordable credit, leading to a higher risk of falling victim to predatory online lenders that trap small business borrowers in high-interest loans for the long-term.

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

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>

³ "Changes in the Number of Commercial Bank Branches in Rural Areas." University of Illinois Department of Agricultural and Consumer Economics. September 2024. <https://farmdocdaily.illinois.edu/wp-content/uploads/2024/09/fdd092724.pdf>

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

H.R. 976 would hinder progress and further restrict financing opportunities for under-resourced small businesses

Due to the longstanding lack of transparency in small business lending, which has exacerbated financing gaps for women, minority, and under-resourced entrepreneurs, Small Business Majority 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 Section 1071 will provide critical information that helps financial institutions and policymakers better understand how successful they are in lending to rural- and SEDI-owned 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.

For these reasons, Small Business Majority strongly opposes H.R. 976, the 1071 Repeal to Protect Small Business Lending Act, which would effectively dismantle current progress made towards responsible, data-driven lending practices by repealing Section 1071. 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.⁴ 1071 would not only bring light to the disparities in lending by demographic, but would reveal more troubling business practices that are worthy of a bipartisan commitment to combat including misleading disclosures of interest rates and fee structures as they translate to APR or Estimated APR, or an outright lack of important information needed for making financial decisions prior to taking out a loan – a commonly cited barrier by the Federal Reserve Bank of Cleveland.⁵

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.⁶ 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.

⁴ “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>

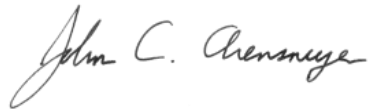
⁵ “Clicking for Credit: Experiences of Online Lender Applicants from the Small Business Credit Survey.” Federal Reserve Bank of Cleveland. August 2022. <https://www.clevelandfed.org/publications/cd-reports/2022/sr-20220816-clicking-for-credit-experiences-of-online-lender-applicants-from-sbcs>

⁶ “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/>

We urge Committee members to oppose H.R. 976 and urge Congress to reconsider the detrimental impact of undoing what would have been the most significant regulation for small business financing on our nation's small business community.

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 can do so on their merit and not based on their demographic background. For any questions or additional information, please contact our Government Affairs Director, Alexis D'Amato, at adamato@smallbusinessmajority.org.

Sincerely,

A handwritten signature in black ink that reads "John C. Arensmeyer". The signature is written in a cursive, flowing style.

John Arensmeyer
Founder & CEO
Small Business Majority