



**WRITTEN STATEMENT**

**BEFORE**

**THE U.S. SENATE COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP**

**IN CONJUNCTION WITH**

**THE U.S. SENATE HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS  
SUBCOMMITTEE ON REGULATORY AFFAIRS AND FEDERAL MANAGEMENT**

**HEARING ON**

**“REAUTHORIZATION OF THE SBA OFFICE OF ADVOCACY”**

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Chairmen Rubio and Lankford, Ranking Members Cardin and Sinema, and fellow members of the Committees,

Thank you for inviting me to speak with you today about the reauthorization of the U.S. Small Business Administration (SBA) Office of Advocacy and its role examining the impact of regulations on our small business community.

At Small Business Majority, we empower America’s small business owners and independent entrepreneurs to ensure they are a key part of a thriving and inclusive economy.

We have a network of 58,000 small business owners across the country, with six regional offices. We also work closely with more than 1,000 local business groups to create a strong small business voice in Washington and in state capitals, and to deliver critical education and resources to America’s job-creating entrepreneurs. Through our Entrepreneurship Program, we offer free education, tools and events to small business owners and aspiring entrepreneurs about access to responsible lending options, retirement, healthcare, wealth-building tactics and more.

We believe small businesses are essential to the economic and social health and wellbeing of their communities, offering a pathway toward economic independence, upward mobility for people of all ages, ethnicities and genders. This is demonstrated by the fact that more American jobs are created by small businesses and among the self-employed than any other method.

Before I founded Small Business Majority thirteen years ago, I was a small business owner myself. So, I know first-hand how entrepreneurship can create lasting impact for both an individual and his or her community.

Thus, we know how critical the U.S. Small Business Administration is to helping our nation's entrepreneurs launch their businesses and meet their potential. SBA supports entrepreneurs by guaranteeing safe and responsible loan options, providing support and funding for technical assistance and education for small business owners and offering regional and local support to connect small business owners with resources in their communities.

The SBA's Office of Advocacy in particular plays a necessary role for our nation's entrepreneurs, independently representing the concerns of small businesses across the federal government. The Office of Advocacy plays an essential role in ensuring federal regulations support robust entrepreneurial activity without placing undue burdens on America's small businesses, and in guaranteeing policymakers have access to updated data on the small business community to inform and support the legislative process. Moreover, data from the Office of Advocacy is an invaluable resource for many small business organizations like ours, allowing us to better understand the communities we serve.

According to a 2016 report from the Office of Advocacy, the agency annually reviews 1,200 to 1,500 public regulatory notices, analyzes roughly 600 notifications of regulatory activity from other federal agencies, holds dozens of roundtables to invite feedback from public stakeholders, trains federal officials on compliance with the Regulatory Flexibility Act and publishes numerous research and data reports.<sup>1</sup> It is because of these critical functions that we strongly urge you to reauthorize the SBA's Office of Advocacy. An efficient, well-equipped Office of Advocacy is essential to ensuring small businesses have a strong advocate within the federal government, and that any new regulations serve the best interests of America's small businesses. Additionally, we're glad the Senate Committee on Small Business & Entrepreneurship unanimously approved the nomination of David C. Tryon as Chief Counsel for the Office of Advocacy, and we urge the full Senate to move forward with his nomination, as strong leadership is fundamental to ensuring the Office operates effectively.

However, while we fully support the reauthorization of the Office of Advocacy, it's important to note that regulations *per se* are not the enemy of small businesses. Business regulations are neither all good nor all bad, but instead must be evaluated on a case-by-case basis depending on their potential impact on entrepreneurial activity.

My testimony today will expand on these points by focusing on small businesses' views on the role of regulation in a modern economy and by providing summaries of two areas in which we know small business owners support additional regulation: predatory lending and the clean energy economy.

## **A majority of small businesses believe regulation is needed in a modern economy**

Federal regulations are commonly claimed to be one of the biggest issues hindering small business growth. However, according to our scientific polling, 4 out of 5 small business owners agree that regulation of business is needed in a modern economy.<sup>2</sup> While small business owners are always interested in reducing their administrative burden, most Americans believe some regulation is needed to promote fairness and competition. Smart regulation can ensure a level playing field, promote transparency and encourage innovation through fair competition.

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<sup>1</sup> U.S. Small Business Administration's Office of Advocacy, "Background Paper on the Office of Advocacy, 2009-2016," October 2016. <https://www.sba.gov/sites/default/files/advocacy/Report-only-Advocacy-Background-Paper-2009-2016FINAL.pdf>

<sup>2</sup> Small Business Majority, "Opinion Poll: Small Business Owners Say Commonsense Regulations Needed to Ensure a Modern, Competitive Economy," May 22, 2018, <https://smallbusinessmajority.org/sites/default/files/research-reports/052218-Small-Business-Regulations-Poll.pdf>

That's why, according to the same poll, more than three-quarters of small business owners disagree that we should get rid of all regulations on businesses. A similar percentage say some regulations are important to protect small businesses from unfair competition and to allow them to compete with big businesses. What's more, an overwhelming majority of 82% agree that their business can live with regulation if it is fair, manageable and reasonable.<sup>3</sup> These findings debunk the myth that regulations are significantly hindering small business growth, and underscore that responsible regulations are needed to increase the competitiveness of our nation's entrepreneurs.

It should be noted that the following issues are often viewed by small business owners as more important than regulation: a healthy economy that promotes robust customer demand, the ability to compete on a level playing field with larger companies, access to and affordability of healthcare, a quality trained workforce, the rate of taxation and lack of access to credit or capital to invest in their business.

Moreover, small businesses are often used as pawns by big businesses to argue for reduced regulation when the regulations in question either have a minimal impact of small businesses or, in fact, would benefit small businesses. Indeed, our polling found 7 in 10 small business owners feel they are at a disadvantage compared to large corporations due to their size and market power, and these entrepreneurs want the federal government to do more to level the playing field.<sup>4</sup> What's more, 78% of small business owners agree that some regulations are important to protect small businesses from unfair competition and to level the playing field with big business and an almost equal percentage (77%) feel the government should do more to rein in monopolies and enforce anti-trust laws.

Finally, to start off with the proposition that all regulations are inherently harmful has no basis in fact and does not serve the needs of a truly entrepreneurial, innovative economy. Moreover, to blindly assert that any new regulation must be offset by the removal of two other regulations is arbitrary and merely elevates form over substance.

The following discussion includes two examples that illustrate how regulations can be a necessary component of a small business-centric economy: 1) predatory lending and 2) a clean energy economy.

### **Small businesses need protection from predatory lending practices**

One of the greatest imbalances between small businesses and larger corporations is unequal access to capital and other resources used to fund growth. Quite simply, in order to start, grow and expand their businesses, entrepreneurs need capital. While medium- and larger-sized businesses are able to access capital at relatively high rates, small businesses struggle to find capital to start and grow their businesses.

New alternative and online lending opportunities have sprung up to fill this market need, which is a potentially positive development for small businesses. Innovators are providing faster and easier ways to borrow and increasing access to credit in communities that have historically been underserved. Indeed, research data confirms small business owners are increasingly turning to online lenders to fulfill their credit needs. The 2019 Federal Reserve Small Business Credit Survey found applications to online lenders continue to rise, with 32% of applicants seeking financing from an online lender in 2018, compared to 24% in 2017 and 19% in 2016.<sup>5</sup>

The way small businesses borrow money is undergoing historic transformation, but this transformation will achieve its potential only if it is built on transparency and fairness and by putting the rights of borrowers at the center of the lending process. This is necessary because alternative

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<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

<sup>5</sup> The Federal Reserve Banks of the United States, "Report on Employer Firms 2019: Small Business Credit Survey," April 2019, <https://www.fedsmallbusiness.org/medialibrary/fedsmallbusiness/files/2019/sbcs-employer-firms-report.pdf>

sources of financing operate in an almost entirely unregulated market—making many small business owners vulnerable to predatory practices. While some financing institutions are doing their part to disclose their terms and rates, not all lenders are playing by these rules and are offering desperate entrepreneurs loans with predatory terms. Often loan characteristics are not disclosed at the time a loan offer is made and borrowers learn only after the loan was disbursed that there are hidden fees or unfavorable loan terms, leaving them on the hook for much more than expected.

It's clear that small business borrowers face risks from this lack of regulation. Indeed, a May 2016 report from the U.S. Department of the Treasury found an uneven regulatory and supervisory regime creates risks for small business borrowers and that more robust small business borrower protections are needed.<sup>6</sup> These findings are supported by Small Business Majority polling, which revealed 78% of small business owners agree that high interest, high-fee products offered to small businesses are a problem.<sup>7</sup> Additionally, 3 in 4 small business owners felt that while online small business lending opened up new sources of capital and credit for small business owners, it should be regulated to ensure small business borrowers are protected from predatory practices. What's more, an overwhelming majority of 8 in 10 small business owners reported they were in favor of regulating online lenders to ensure interest rates and fees are clearly disclosed to borrowers.

This is why it's critical that the Office of Advocacy continue to review regulations with the perspective that some regulations can actually promote responsible small business innovation.

## **Clean energy regulations serve the need of a modern entrepreneurial economy**

Additional national opinion polling conducted by Small Business Majority found a 56% majority of small business owners believe government can play an important regulatory role that creates financial incentives that help small businesses take energy efficiency measures, promotes renewable technologies and generally supports a competitive 21<sup>st</sup> century clean energy-based economy.<sup>8</sup> For example, 65% of respondents support previously introduced rules by the EPA to reduce mercury and other toxic emissions that get into the air from power plants and 52% supported the EPA regulating carbon emissions from existing power plants that cause climate change.

Small business owners don't simply believe that regulating energy and emissions is good for the environment; they also feel that such regulations would be a boon to the small business economy. Indeed, a vast 87% of small business owners believe that improving innovation and energy efficiency are good ways to increase prosperity for small businesses.<sup>9</sup>

America's entrepreneurs are steadfastly committed to innovation and efficiency as pragmatic long-term economic solutions for small business, and they believe regulations like higher fuel efficiency standards and efforts to improve federal regulatory oversight will help spark this economic innovation. The Office of Advocacy has a key role to play in ensuring any such regulations boost America's small businesses, and should work to ensure our nation's entrepreneurs views on such policies are heard rather than outright rejecting new regulations.

## **Conclusion**

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<sup>6</sup> U.S. Department of the Treasury, "Opportunities and Challenges in Online Marketplace Lending," May 10, 2016, [https://www.treasury.gov/connect/blog/Documents/Opportunities\\_and\\_Challenges\\_in\\_Online\\_Marketplace\\_Lending\\_whte\\_paper.pdf](https://www.treasury.gov/connect/blog/Documents/Opportunities_and_Challenges_in_Online_Marketplace_Lending_whte_paper.pdf)

<sup>7</sup> Small Business Majority, "Opinion Poll: Small Business Owners Concerned with Predatory Lending, Support More Regulation of Alternative Lenders," December 12, 2017, <https://smallbusinessmajority.org/sites/default/files/research-reports/121217-Small-Business-Access-To-Capital-Poll.pdf>

<sup>8</sup> Small Business Majority, "Small businesses support clean energy standards and want congressional action on EPA nominee," May 8, 2013, <https://smallbusinessmajority.org/our-research/clean-energy-economy/small-businesses-support-clean-energy-standards-and-want-congressional-action-epa-nominee>

<sup>9</sup> Small Business Majority, "Small business owners believe national standards supporting energy innovation will increase prosperity for small firms," September 20, 2011, <https://smallbusinessmajority.org/small-business-owners-believe-national-standards-supporting-energy-innovation-will-increase-prosperity-small-firms>

In summary, we support a robust Office of Advocacy, but an office that (1) looks at regulations as an essential function of government; and (2) examines regulations on a cost-benefit basis, not through a one-size-fits-all ideological lens. Indeed, we know from our polling that small business owners do not view regulations as a top issue hindering their business and often see a positive role for federal regulation in increasing the ability of small businesses to compete with their larger counterparts. Public policy, including federal regulation, should empower America's entrepreneurs to unleash their potential and boost prosperity for all; we believe the Office of Advocacy's role is to ensure just that.

Thank you for the opportunity to comment on these important issues. I am happy to answer any questions.