



WRITTEN STATEMENT

SUBCOMMITTEE ON DIVERSITY AND INCLUSION

U.S. HOUSE COMMITTEE ON FINANCIAL SERVICES

HEARING ON

**“ACCESS DENIED: CHALLENGES FOR WOMEN- AND MINORITY-OWNED
BUSINESSES ACCESSING CAPITAL AND FINANCIAL SERVICES”**

JULY 13, 2020

SMALL BUSINESS MAJORITY

Chairwoman Beatty and fellow members of the Committee:

The contributions of entrepreneurs of color and women to our local and national economies cannot be overlooked, particularly as these businesses are struggling to stay afloat during this difficult time. For one, the nearly 8 million businesses owned by people of color generate \$1.4 trillion in revenue and employ more than 7 million people.¹ And between 2007 and 2018, women-owned businesses increased by 58%, employing 9.2 million people.² However, women and entrepreneurs of color confront obstacles unique to their experiences that white business owners do not, particularly ongoing discrimination in accessing capital and accessing critical business support services. And inequities that women- and minority-owned businesses experience has only been exacerbated as a result of the COVID-19 pandemic.

Small Business Majority is dedicated to shining a light on these issues and promoting policies that will ensure a more level playing field for all entrepreneurs. Small Business Majority is a national small business advocacy organization, founded and run by small business owners to ensure America's entrepreneurs are a key part of a thriving and inclusive economy. Throughout the pandemic, we have advocated for policies that will support small businesses now and after the pandemic, and we are particularly focused on elevating the barriers facing businesses owned by women and people of color.

We've seen that the COVID-19 pandemic has highlighted the major inequities they face. Women have always faced discrimination in securing small business funding, and now an estimated 90% of women and minority-owned small businesses have been shut out of federal emergency funding.³ Furthermore,

¹ Small Business Administration, Office of Advocacy, “Survey of Business Owners Facts: Minority-Owned Businesses in the United States.” May 2016. <https://advocacy.sba.gov/2016/05/01/minority-owned-businesses-in-the-united-states/>

² American Express, “Number of Women-Owned Businesses Increased Nearly 3,000% since 1972, According to New Research.” August 2018, <https://about.americanexpress.com/press-release/research-insights/number-women-owned-businesses-increased-nearly-3000-1972-according>

³ CNBC, “Shut out of PPP loans, struggling with no child care: How Covid-19 is impacting women-owned small businesses.” May 2020. <https://www.cnbc.com/2020/05/07/how-covid-19-is-impacting-women-owned-small-businesses.html>

95% of Black-owned businesses are sole proprietors, which limits their access to federal programs.⁴ Moreover, 41% of Black-owned businesses were closed during stay at home orders, compared to 17% of white-owned businesses.⁵

Prior to the COVID-19 pandemic, small businesses and entrepreneurs of color lacked traditional lending relationships that are essential to their business's success. Traditional lenders can be inaccessible because of their complex requirements like high credit scores and loan guarantees. There's also a pattern of discrimination that excludes people of color. For instance, while Black-owned businesses are more likely to apply for bank financing, less than half of those applications were fully funded.⁶ For women, whether due to inaccessibility, sexism perpetuated by banks, or both, women lack financial assets and traditional banking relationships, which means they rely on other forms of credit that their white, male counterparts do not. And women of color face these barriers on a greater scale than white women.

The following policies will help address these systemic barriers by promoting access to responsible credit and capital through protections against predatory lending, expansion of successful traditional lending programs and agency demographic reporting.

Expand access to responsible credit and capital

- Pass legislation extending the Truth in Lending Act's disclosure requirements to small business loans or credit products, understanding that women and communities of color are often targeted by predatory lenders. Similarly, we recommend promoting responsible lending practices by lenders and brokers as set forth in the [Small Business Borrowers' Bill of Rights](#).⁷
- Pass legislation that protects small business owners against predatory debt collectors, especially minority-owned businesses that are particularly vulnerable to abusive debt collection practices.
- Reauthorize and fund a program similar to the State Small Business Credit Initiative (SSBCI) at \$10 billion. Between 2010 and 2017 SSBCI facilitated the delivery of \$9.5 billion in flexible, affordable debt and equity capital via the states to small businesses across the country.
- Establish and financially backstop new types of loan products that provide initial repayment moratoria, a subsequent period of no- or low-interest and responsible interest levels after that.
- Strengthen responsible sources of capital by expanding SBA loan programs such as the 7(a) Loan Guaranty Program, the 504 Loan Guaranty Program and the Microloan Program.
- Support measures to collect demographic data from federal loan programs like the Paycheck Protection Program to ensure agencies and lenders are not discriminatory in their lending practices. This must also include allowing the Consumer Financial Protection Bureau (CFPB) to collect small business lending data as mandated under section 1071 of the Dodd-Frank Act.
- Dramatically expand the annual budget of the Community Development Financial Institutions (CDFI) Fund to \$1 billion. CDFIs are fundamental in breaking down barriers to capital access for minority-owned small businesses.
- Make permanent the New Markets Tax Credit (NMTC), which has helped to attract more than \$60 billion in private sector funding to community development financing intermediaries that provide loans to businesses in economically-distressed communities.

⁴ CNN, "Fewer Black businesses eligible for pandemic aid." 2020. <https://www.cnn.com/videos/business/2020/06/22/black-owned-businesses-economic-recovery-mattngly-pkg-vpx.cnn/video/playlists/business-coronavirus/>

⁵ CNN, "Fewer Black businesses eligible for pandemic aid." 2020. <https://www.cnn.com/videos/business/2020/06/22/black-owned-businesses-economic-recovery-mattngly-pkg-vpx.cnn/video/playlists/business-coronavirus/>

⁶ Board of Governors of the Federal Reserve System. "Report to Congress on the Availability of Credit to Small Businesses." September 2017. <https://www.federalreserve.gov/publications/2017-september-availability-of-credit-to-small-businesses.htm>

⁷ Small Business Borrowers' Bill of Rights. <http://www.borrowersbillofrights.org>

- Establish policies that encourage women-focused venture capital investment for startup businesses to include rural cities and towns, instead of just metro areas, understanding that women receive only 3% of all venture capital.⁸
- Support innovations like equity crowdfunding, which women are more likely to utilize to launch their business, while ensuring safeguards that make sense for both small business owners and investors.

Bolster financial wellness and business resources

- Provide more funding and resources for business assistance providers and trusted community based organizations, such as Small Business Development Centers, Women’s Business Centers, the Minority Business Development Agency, Procurement Technical Assistance Centers, and local economic development corporations, to expand their reach and provide free and low-cost training for business owners and aspiring entrepreneurs. These providers offer essential resources like financial literacy and wellness and assistance in expanding procurement opportunities.
- Increase investments in federally-funded programs to include credit-building programs and products that educate business owners on how to strengthen their credit.
- Require at least 10% of federal procurement contracts go to women-owned businesses, with a minimum of 5 %. The current goal of up to 5% is still too low and has not yet been met by the federal government.

Thank you for the opportunity to comment on this subject. This is a critical discussion to have at this time, particularly as these groups—whose communities have been historically disinvested in—are the most vulnerable during the pandemic. Small Business Majority commends the Subcommittee’s dedication to continuing these conversations so that women and entrepreneurs of color receive equal access to capital and business resources to sustain and grow their businesses.

⁸ Harvard Business Review, “How the VC Pitch Process is Failing Female Entrepreneurs.” January 2020. <https://hbr.org/2020/01/how-the-vc-pitch-process-is-failing-female-entrepreneurs>