

February 1, 2021

## Memorandum

**To:** Members, Committee on Financial Services  
**From:** FSC Majority Staff  
**Subject:** February 4, 2021, NSIDMP hearing entitled, “Supporting Small and Minority-Owned Businesses Through the Pandemic”

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The Subcommittee on National Security, International Development, and Monetary Policy will hold a virtual hearing entitled, “Supporting Small and Minority-Owned Businesses Through the Pandemic” on Thursday, February 4, 2020 at 3:00 pm Eastern Daylight Time on the virtual meeting platform Cisco Webex. This hearing will have one panel with the following witnesses:

- **Nneka Brown-Massey**, Founder and Creative Director, Innovative Supplies Worldwide, Inc., on behalf of Main Street Alliance
- **Gary Cunningham**, President and CEO, Prosperity Now
- **Cliff Kellogg**, Executive Director, C-PACE Alliance
- **Everett Sands**, CEO, Lendistry
- **Holly Wade**, Executive Director of Research and Policy Analysis, National Federation of Independent Business (NFIB)

### Overview

The COVID-19 pandemic continues to have major health, economic, and financial ramifications globally and in the United States, including for small businesses and minority-owned businesses. Congress has responded with several programs, like the Paycheck Protection Program (PPP), intended to ensure these small businesses do not fail through no fault of their own, however small businesses and minority-owned businesses continue to struggle. In the aftermath of the 2008 global financial crisis, Congress established the State Small Business Credit Initiative (SSBCI) to support state programs designed to help provide credit and investments in small businesses. The result was a program that leveraged \$1.5 billion in federal funds to support \$10.7 billion in loans and investments that helped small businesses create or retain over 240,000 jobs. This hearing will explore the evolving financial needs of small businesses, and consider proposals that build on such programs, like SSBCI, to provide additional support during the pandemic and beyond.

### COVID-19 and Challenges for the Small Business Environment

As COVID-19 has wreaked havoc on the economy, and small businesses have borne significant pain. According to a study out of UC Santa Cruz, the number of active U.S. business owners plunged by 22% from February to April last year, driven in part by precipitous drops in active Black and Latinx business ownership, which experienced a 41% and 32% decrease in business activity, respectively.<sup>1</sup> Women business owners also experienced a disproportionate loss

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<sup>1</sup> Fairlie, R. [\*The impact of COVID-19 on small business owners: Evidence from the first 3 months after widespread social-distancing restrictions.\*](#) (August 2020).

in business activity at the start of the pandemic, and overall business activity was still dampened through June, when the study ended.<sup>2</sup> According to a Harvard Business Review survey taken after the onset of the pandemic, the “vast majority” of small businesses stated that they had less than two months of expenses on hand to get through an emergency.<sup>3</sup>

With businesses facing more bankruptcies than they had since the fallout of the 2008 financial crisis,<sup>4</sup> Congress enacted numerous programs through the CARES Act and subsequent legislation to provide temporary relief to small businesses, including the Paycheck Protection Program (PPP) which is administered by the Small Business Administration (SBA) and Department of the Treasury, and the Main Street Lending Program (MSLP), which was run by the Federal Reserve with support from Treasury.<sup>5</sup> Congress has also provided funding for Economic Injury Disaster Loans (EIDL) emergency grants, among other programs. Despite these programs, many businesses were unable to access needed capital and have had to shutter their doors permanently.<sup>6</sup>

Indeed, although both the PPP and the MSLP have provided help to small businesses, there have been concerns these programs only helped some businesses to a certain degree or experienced a lower than expected uptake. For example, the MSLP took three months to become operational, and was not available to non-profits until months after its inception. The Congressional Oversight Commission (COC) examined the MSLP in August and found that many potential borrowers were still unfamiliar with the program.<sup>7</sup> Moreover, the MSLP contained several constraining conditions, including a minimum loan size threshold, a requirement that loans be repaid in full, and a requirement that borrowers have unmet credit needs.<sup>8</sup> All of the Federal Reserve emergency lending facilities created through the CARES Act, including the MSLP, were eliminated at the end of 2020, and the deadline for new MSLP transactions passed on January 8, 2021.<sup>9</sup> Although activity in the MSLP increased in the final months of its existence, the program ultimately supported about \$16.5 billion in loans, well short of the \$600 billion in capacity that was announced upon the program’s establishment.<sup>10</sup>

Small businesses also encountered difficulties accessing the PPP. Confusing requirements and loan forgiveness guidelines deterred businesses from applying to the PPP.<sup>11</sup> Among those that did apply, there was confusion about program terms that led some borrowers to be hesitant to utilize the loans that they had received.<sup>12</sup> Analyses by the Federal Reserve Bank of New York indicate that PPP funds were not equitably distributed, with eligible businesses less likely to

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<sup>2</sup> *Id.*

<sup>3</sup> See Harvard Business Review, [A Way Forward for Small Businesses](#), (April 2020).

<sup>4</sup> The Sloan School of Management, [The coming wave of COVID-19 bankruptcies and how to mitigate them](#), (Dec. 15, 2020).

<sup>5</sup> *Id.*

<sup>6</sup> *Id.* *Supra* Note 3.

<sup>7</sup> Congressional Oversight Commission, [The Fourth Report of the Congressional Oversight Commission](#), (Aug. 21, 2020).

<sup>8</sup> *Id.*

<sup>9</sup> American Banker, [Fed extends Main Street Lending Program to process more loans](#), (December 29, 2020).

<sup>10</sup> Federal Reserve Board of Governors, [Main Street Lending Program](#), (January 11, 2021)

<sup>11</sup> Business Insider, [PPP Small Business Loans - Updated Report from Insider Intelligence](#), (Nov. 26, 2020).

<sup>12</sup> Forbes, [Demand For The Paycheck Protection Program Is Drying Up](#), (May 26, 2020).

receive aid in areas with more COVID-19 cases.<sup>13</sup> During the first round of funds, larger businesses were decried for taking advantage of the loans, and uptake slowed during the second round.<sup>14</sup> At the end of 2020, Congress approved the Consolidated Appropriations Act of 2021, which made a number of changes to PPP, extending the program through March 31, 2021, allowing businesses with under 300 employees to apply for a second round of PPP loans, providing an additional \$284 billion in PPP funds, and simplifying the loan forgiveness application process for loans under \$150,000.<sup>15</sup>

### **State Small Business Credit Initiative (SSBCI)**

As the economy began to rebound following the Great Recession, President Obama identified access to capital for small businesses as an impediment to further recovery. In collaboration with the Obama Administration, then-House Financial Services Chair Barney Frank and then-Rep. Gary Peters proposed the State Small Business Credit Initiative (SSBCI) to support state programs that were successfully directing capital to small businesses.<sup>16</sup> In 2010, Congress approved the Small Business Jobs Act, which initiated a \$1.5 billion SSBCI program administered by the Treasury Department and intended to support small business access to capital. SSBCI funds were awarded to 47 states, the District of Columbia, 5 U.S. territories, and 3 consortiums of municipalities within the states of North Dakota and Wyoming. By the end of 2016, 98% of the funds available (\$1.45 billion, when subtracting Treasury's administrative costs) under the program had been disbursed to states.<sup>17</sup> Because SSBCI funds can be leveraged, the SSBCI has supported over \$8 billion in new lending to small businesses. The Obama administration advocated for another round of funding for the SSBCI in its FY 2015, FY 2016, and FY 2017 budget requests, but Congress did not approve new funding.<sup>18</sup> In 2017, Treasury's authority to oversee the SSBCI expired.

SSBCI funds were provided to state agencies, which either created, re-established, or funded existing programs to support small businesses within their states.<sup>19</sup> The SSBCI had five major categories of programs: the Capital Access Program (CAP), Collateral Support Program, Loan Guarantee Program, Loan Participation Program, and Venture Capital Program.<sup>20</sup> Among these, the most commonly utilized was the CAP. The CAP encouraged lending to small businesses by reducing the risk of losses for participating financial institutions. Lenders and borrowers

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<sup>13</sup> Washington Center for Equitable Growth. [Did the Paycheck Protection Program work for small businesses across the United States?](#) (Jul. 15, 2020).

<sup>14</sup> Business Insider. [PPP Small Business Loans - Updated Report from Insider Intelligence](#). (Nov. 26, 2020).

<sup>15</sup> For more information about the PPP provisions of recent legislation, see Congressional Research Service, [COVID-19 Relief Assistance to Small Businesses: Issues and Policy Options](#), (January 2021), CRS- R46284; House Committee on Small Business, [Fact Sheet – Economic Aid to Hard Hit Small Businesses, Nonprofits, and Venues](#), (Dec. 21, 2020), and House Committee on Small Business, [Section-by-Section – Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues](#), (Dec. 21, 2020).

<sup>16</sup> Congressional Research Service, [State Small Business Credit Initiative: Implementation and Funding Issues](#), (April 2018), CRS-R42581

<sup>17</sup> Id.

<sup>18</sup> Id.

<sup>19</sup> Department of the Treasury, [Program Evaluation of the U.S. Department of Treasury State Small Business Credit Initiative](#), (October 2016).

<sup>20</sup> For more details on the different categories of SSBCI programs, see Department of the Treasury, [Program Evaluation of the U.S. Department of Treasury State Small Business Credit Initiative](#), (October 2016).

contribute a small percentage of the loan to the CAP, then receive support from the state.<sup>21</sup> The Small Business Jobs Act required states participating in the SSBCI to develop programs that targeted underserved communities, although the implementation of that requirement did not always guarantee support flowed to minority-owned businesses or underserved communities. According to an analysis from the Treasury Department, 42% of the businesses supported by SSBCI were located in low-and-moderate income (LMI) communities.<sup>22</sup>

### **Support for Minority-Owned Businesses and LMI Communities**

Black and other minority owned businesses have been especially vulnerable during the COVID-19 pandemic. According to the National Bureau of Economic Research, the number of Black business owners reportedly fell from 1.1 million individuals in February 2020 to 640,000 in April 2020.<sup>23</sup> They also reported that Latinx business owners dropped 32 percent and Asian business owners dropped 26 percent from February to March 2020.<sup>24</sup> In June 2020, the Subcommittee on Diversity and Inclusion convened a hearing on the unique challenges and inequities minority- and women-owned businesses have historically faced when accessing capital and how those challenges have been exacerbated during the COVID-19 pandemic.<sup>25</sup> The U.S. Black Chamber testified that because minority-owned businesses continue to “grapple with systemic barriers to financing their ventures, which prevents investment in their communities,” Congress must prioritize solutions that would provide disadvantaged markets with access to minority-specific funding, as well as technical assistance and education programs.<sup>26</sup>

An analysis of the April PPP loan data found that “Black business owners were more likely to be denied PPP loans compared to white business owners with similar application profiles due to outright lending discrimination.”<sup>27</sup> The same analysis found that businesses in majority Black neighborhoods experienced significant delays in receiving PPP loans and were more likely to be pushed toward online lending, citing factors such as a lack of relationships between larger banks and minority-owned businesses, as well an especially steep decline in community banks within communities of color.<sup>28</sup> Another analysis of the first two rounds of PPP funding found that minority-owned businesses were at an especially severe disadvantage in obtaining access to the initial April 2020 round, which was completely depleted within two weeks of the program’s creation.<sup>29</sup> Reasons cited for this disadvantage include the fact that “minority-owned businesses

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<sup>21</sup> Congressional Research Service, [State Small Business Credit Initiative: Implementation and Funding Issues](#), (April 2018), CRS-R42581

<sup>22</sup> Department of the Treasury, [Program Evaluation of the U.S. Department of Treasury State Small Business Credit Initiative](#), (October 2016).

<sup>23</sup> National Bureau of Economic Research, [The Impact of Covid-19 on Small Business Owners: Evidence of Early-Stage Losses Form the April 2020 Current Population Survey](#) (June 2020).

<sup>24</sup> *Id.*

<sup>25</sup> U.S. Congress. House Committee on Financial Services. Hearing on Access Denied: Challenges for Women- and Minority-Owned Businesses Accessing Capital and Financial Services During the Pandemic, Committee Memorandum. 116th Cong., 2nd sess., 2020

<sup>26</sup> *Id.*

<sup>27</sup> Brookings Metropolitan Policy Program, [New data shows small businesses in communities of color had unequal access to federal COVID-19 relief](#), (September 2020).

<sup>28</sup> *Id.*

<sup>29</sup> National Bureau of Economic Research, [Did the \\$660 billion Paycheck Protection Program and \\$220 billion Economic Injury Disaster Loan Program get disbursed to minority communities in the early stages of COVID-19](#), (January 2021).

tend to be smaller than non-minority-owned businesses, and smaller businesses typically took longer to complete required paperwork because they often did not have in-house accountants.”<sup>30</sup> The second round of PPP loans, which went out between April and August 2020, showed significant improvements for minority-owned businesses, although the authors note that it is “unclear how costly the delay was in receiving loans to minority businesses and communities.”<sup>31</sup>

According to a survey of small business owners conducted by the non-profit organizations Color of Change and the Main Street Alliance, more than one third of Black, Asian and Latino-owned businesses expressed concern about closing within the next six months without support from the federal government to address the economic impacts of the COVID-19 pandemic.<sup>32</sup> The same survey found that Black-owned small businesses reported longer delays in accessing PPP loans, and were more likely to report that the PPP support they received was inadequate. Many small business owners reported not applying for PPP or other programs that they may have qualified for, and a lack of awareness and technical assistance available to support them through the pandemic.<sup>33</sup>

### **Minority Business Development Agency (MBDA)**

In 1969, MBDA was created via executive order as an agency within the Department of Commerce. MBDA was charged to focus on the unique needs of minority-owned businesses, including the facilitation of financing, grants and technical services.<sup>34</sup> Despite having a 50-year record of working for communities of color, MBDA’s establishment is not codified so its continued existence and ability to assist minority business enterprises is dependent upon annual appropriations. With funding from the CARES Act, MBDA provided grants to organizations that advocate for minority-owned businesses, such as the U.S. Hispanic Chamber of Commerce and the U.S. Black Chamber of Commerce, to provide technical and other assistance. MBDA also used CARES funding to enhance services at its minority business development centers.<sup>35</sup> MBDA technical assistance—business consulting, sharing information on capital access programs, facilitating strategic partnerships, and language access—has helped minority-owned businesses to navigate funding and other opportunities to alleviate the negative economic impacts of the COVID-19 pandemic on their businesses.

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<sup>30</sup> Id.

<sup>31</sup> Id.

<sup>32</sup> Main Street Alliance, [NEW Poll: Nearly Half of Black-Owned Small Businesses Closed Permanently Or Will Soon Shutter Due to Insufficient Federal COVID Relief](#) (Oct. 2020).

<sup>33</sup> Id.

<sup>34</sup> Minority Business Development Agency, “Executive Order 11458,” <https://archive.mbda.gov/page/executive-order-11458.html>

<sup>35</sup> U.S. Congress. House Committee on Financial Services. Hearing on Access Denied: Challenges for Women- and Minority-Owned Businesses Accessing Capital and Financial Services During the Pandemic, Committee Memorandum. 116th Cong., 2nd sess., 2020.