Access Denied: Challenges for Women and Minority-Owned Businesses Accessing Capital and Financial Services During the Pandemic

Testimony of:

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Before the:

House Financial Services Committee
Subcommittee on Diversity and Inclusion
U.S. House of Representatives

The Honorable Joyce Beatty, Chairwoman

The Honorable Ann Wagner, Ranking Member

July 9, 2020

Protecting Small Business, Promoting Entrepreneurship

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Chairwoman Beatty, Ranking Member Wagner and members of the subcommittee, thank you for inviting me to join you for this hearing today on capital access challenges faced by women and minority-owned businesses both historically and during the pandemic.

I am honored to represent the Small Business & Entrepreneurship Council (SBE Council) where I serve as president & CEO to discuss this critical issue – as well as solutions – with members of the subcommittee and the distinguished panel of experts and advocates assembled today.

Access to capital has been a priority issue for our organization since its founding over 25 years ago. It remains a longstanding challenge for many entrepreneurs and startups, particularly women and minority-owned businesses, and this challenge has become more acute during COVID-19. Not surprisingly, small business owners cite "demand" and "access to capital" as their top challenges during this crisis (as reported in a recent **State of Small Business Report** by the Small Business Roundtable and Facebook), and it is expected that these two issues will remain with us for some time given the uncertainty of the pandemic and how it will effect re-openings and the economy moving forward.

Let there be no doubt that accessing capital is an ongoing challenge for women and minority-owned businesses. Closed funding networks, long-standing financial institutional bias and underserved markets present significant hurdles for these businesses, along with the many women and minority entrepreneurs who want to start businesses.

SBE Council has been proud to lead advocacy efforts to democratize access to capital over our 26-year history. Much more needs to be done, however, to connect promising women and minority entrepreneurs with the financial resources they need to startup, compete, survive and thrive.

Access to Capital and COVID-19

While some of the recent programs advanced by Congress have provided support to a portion of women and minority-owned businesses to help these firms better navigate COVID-19, restrictions and lack of distribution channels at the launch of the Paycheck Protection Program (PPP) left a significant number of these small businesses behind.

Minority and women-owned business owners who lack relationships with banks or other financial institutions participating in PPP lacked early access to the program. That is why SBE Council strongly advocated for inclusion of fintech lenders, for example, from the start to broaden access to PPP loans. These lenders were brought on at the end of the first tranche of PPP funding, which made a difference in reaching the smallest of small businesses and self-employed. Fintech companies needed to be approved as lenders at the very start of the program.

The on-boarding of Community Development Financial Institutions (CDFIs) also made a big difference in reaching women and minority-owned businesses once more of them were allowed to become PPP lenders. As noted **by an Opportunity Finance Network report on June 30:**

Eventually, and only after concerted advocacy, CDFIs were recognized for their specialized expertise, and offered an expanded role in the program. On May 28, $10 billion in PPP funding *was "set-aside" for CDFIs to lend with the hope that more very small, minority- and women-owned businesses in low-wealth markets would be served. Many of these customers were helped by CDFI PPP lenders, but by the time dedicated PPP resources were directed to CDFIs, demand for the program had fallen off. Sadly, some small businesses had already closed their doors including 41% of Black-owned businesses. Others had become discouraged about qualifying for a forgivable PPP loan. In addition, more flexible terms meant to attract more PPP applicants were not enacted until June 5.*

Even with the delay, CDFIs showed remarkable success as PPP lenders, outperforming much larger and better capitalized lenders. Consider that the entire CDFI industry (1,100 institutions) has $222 billion in total assets. In just 2.5 months, a subset of the CDFI industry (303 CDFIs) made 101,799 PPP loans for a total of $7.3 billion.

Other PPP restrictions regarding when and how a loan can be used in order to be eligible for forgiveness was (and remains) a barrier to accessing PPP loans. While some of these restrictions were made more flexible with the signing of the Paycheck Protection Program Flexibility Act, minority and women-owned firms with high overhead expenses vs. payroll costs remain shutout. Some of the changes came too late for many businesses, and ever-changing rules and guidance – along with the complexity in applying for a PPP loan (and subsequent forgiveness) - disadvantaged women and minority-owned entrepreneurs who lack access to technical support often provided by lenders.

There is no doubt that the PPP has helped many small businesses and their employees weather the COVID-19 crisis. Yet many small businesses were not able to access the program or the SBA's emergency loan disaster loan (EIDL) program. As Congress ponders further changes to PPP, or reworks it all together, we support changes that provide even more flexibility for small businesses including longer terms for repayment, low interest rates, broad usage in terms of what they funds can be used for, and targeted efforts to help those small businesses most in need or that were shut out of the program the first time around.

Moving Forward

As noted previously, the issue of capital access has long been a priority issue for SBE Council. We have led numerous advocacy campaigns to unleash capital and improve its distribution to those most in need. For example, two of our members jumpstarted the discussion through their design and advocacy of the framework that made Regulated Crowdfunding a reality. That effort had significant bipartisan support, and even though it took too long for the rules to be developed and implemented by the Securities and Exchange Commission (SEC), Title III of the first JOBS Act (regulated crowdfunding) is beginning to perform as we expected it would. More than $370 million has been raised by 1400 local companies, and 515,000 investors have participated in these raises.

We are pleased that the Securities and Exchange Commission (SEC) is moving forward with a number of regulatory improvements to leverage the early success of Regulated Crowdfunding, as

proposed on March 4, 2020, including specific changes that have been advocated by SBE Council:

● Increasing Offering Limits: Raises the current Regulation Crowdfunding cap (Title III Crowdfunding) from $1.07 million to $5 million.

● Testing the Waters: Allows Regulation Crowdfunding issuers to "test the waters" prior to filing an offering document with the Commission (similar to a Regulation A offering.)

● Demo Day Clarification: The proposal would provide that certain "demo day" communications are not deemed general solicitation or general advertising.

● The use of certain special purpose vehicles, which would facilitate investing in Regulation Crowdfunding issuers.

On May 4, **the SEC also announced conditional relief** for small businesses that allows existing firms to leverage Regulation Crowdfunding more effectively and with greater ease. According to the SEC:

"The temporary rules are intended to expedite the offering process for smaller, previously established companies directly or indirectly affected by COVID-19 that are seeking to meet their funding needs through the offer and sale of securities pursuant to Regulation Crowdfunding."

"The temporary rules provide flexibility for issuers that meet certain eligibility criteria to assess interest in a Regulation Crowdfunding offering prior to preparation of full offering materials, and then once launched, to close such an offering and have access to funds sooner than would be possible in the absence of the temporary relief. The temporary rules also provide an exemption from certain financial statement review requirements for issuers offering more than $107,000 but not more than $250,000 in securities in reliance on Regulation Crowdfunding within a 12-month period."

According to NextSeed, an SEC-registered online platform for small businesses (and SBE Council member), they are actively utilizing the SEC's temporary relief in its current offerings. They strongly advocate for permanent adaptation of this relief, perhaps as part of a micro-offering exemption. According to NextSeed, Main Street businesses are actively looking for debt /loans (and not equity), which is the predominant capital structure that benefits cash-flow oriented businesses. Small businesses using this temporary relief have really appreciated the effort.

There has been no fraud under Regulated Crowdfunding, and regulatory improvements as proposed by the SEC will help more startups and small businesses access this method for raising capital where women and minority-owned businesses are experiencing solid success. As noted by Sherwood Neiss, founder of Crowdfund Capital Advisors and SBE Council member, noted in Venture Beat (**How Crowdfunding is Supporting Black Livelihoods and Communities**, June 13, 2020):

I check in regularly with the various Regulation Crowdfunding platforms on their progress, and this year, their numbers show proportionate representation of Black-led businesses….According to George Cook, Co-founder/CEO crowdfunding platform Honeycomb, 11% of all their campaigns have been run by Black founders. And another platform, Seedinvest, has seen 12% of campaigns run by Black founders, according to Aaron Kellner Director of Ventures.

Black founders are also seeing relatively good success rates with their fundraises. According to Ben Blieden, co-founder/CFO of MainVest, 60% of companies with at least one African American founder have had successful raises on its platform, compared to the platform's average of 63%. The success rate for black founders was 50% on Seedinvest, compared to a 69% average success rate on the platform overall.

Aaron Kellner at Seedinvest told me, "Minority founded/led companies raised on average of about $415K [per company] through the SeedInvest network. This success rate is slightly higher than the platform average overall."

As the SEC moves forward with regulatory improvements and Congress considers other capital access programs to benefit small businesses generally and women and minority-owned businesses specifically, committee members may want to explore the idea of a public-private partnership fund which would help fund these businesses through a "co-investment" – that is, when a small business reaches its target goal for raising funds, the federally-run fund can match that investment up to a certain amount.

Such a fund, where the federal government is paid back for its investment and can provide taxpayers with a tax credit to make an investment, has great potential for supporting women and minority-owned firms. The United Kingdom's co-investment model has worked very well, and this type of program may be one that Congress considers in its deliberations on how to meet the capital needs of local businesses.

SBE Council believes that reforming regulatory policies and incentivizing private capital investment are extremely important right now. Especially given the significant demand for federal support that is needed across the country resulting from COVID-19 and limited taxpayer dollars available to meet these needs.

The private sector and private businesses are beginning to step up in helping small businesses through direct grants and other financial support. The public understands even more the value and importance of small businesses in their communities. Getting private investors of all means involved in the financing of local businesses, particularly women and minority-owned businesses, has tremendous appeal and SBE Council looks forward to working with this subcommittee and all members of Congress on advancing bipartisan solutions that will help meet this unprecedented need.

Thank you for inviting SBE Council to be a part of this hearing, and I look forward to our discussion.

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