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Good afternoon, Chair Perlmutter, Ranking Member Luetkemeyer and members of the Subcommittee.

It is my honor to be addressing you today for this discussion on ensuring small and minority-owned businesses have an equal share in our nation's economic recovery. I am speaking from over 20 years of experience working in the small business development and lending field as well as in my role as President and CEO of the National Association for Latino Community Asset Builders-NALCAB. In this capacity, I represent our member network of over 150 nonprofits nationwide that support small, Latino-owned, and other underserved businesses. Lastly, and most importantly, I am representing the experiences of their small business clients that continue to weather the adverse economic effects of the COVID-19 pandemic.

NALCAB Background

NALCAB is the hub of a national network of 150+ mission-driven organizations that are anchor institutions in geographically and ethnically diverse Latino communities in 40 states, Puerto Rico, and the District of Columbia. Members of the NALCAB network invest in their communities by building affordable housing, addressing gentrification, supporting small business growth, and providing financial counseling on issues such as credit building and homeownership. Most of the people served by the NALCAB network are low- to moderate-income individuals.

NALCAB's vision is to dramatically scale the flow of public and private sector capital that responsibly meets the asset building needs and opportunities in the communities and families we serve. As a grant maker and US Treasury certified CDFI lender, NALCAB strengthens and coordinates the capacity of our network to deploy capital. NALCAB also supports our membership through direct capacity building and training services. This year, we will launch our National Alliance of Hispanic CDFI Executives-NAHCE, convening the largest group of Latino-led and Latino-serving CDFIs in the United States.

Since 2008, NALCAB has provided our network members with over $25 million in grants. NALCAB has also trained over 2500 practitioners and graduated 153 next generation Latino leaders from our Community Development Fellowship. With NALCAB's support, member organizations have secured more than $450 million for affordable housing, small business, and financial capability programs. NALCAB has also influenced how local and federal government agencies are deploying hundreds of millions of dollars for community development and recovery. We know that the strength of the US economy relies on the fast-growing Latino community's hard work, entrepreneurial spirit, spending power, and leadership.

__Economic Impact of the COVID-19 Pandemic on Latino-owned Small Businesses__

While the Latino community is heralded for starting small businesses at rates higher than other ethnic groups; the adverse economic effects of the pandemic have disproportionately impacted Latino business owners. Stanford's Latino Entrepreneurship Institute surveyed 7,000 small businesses and cites that 86% of Latino-owned businesses suffered immediate negative financial impacts from the pandemic. At the same time, Latino business owners were successful at securing Paycheck Protection Program-PPP loans at only half the rate of their white counterparts, and only 3% of Latino-owned businesses received their full funding request. Overall, less than 30% of the PPP loans made were to low- to moderate-income business owners. So, clearly, the recovery assistance that has been offered is limited in that it favors entrepreneurs with more resources and more access to information.

Latino-owned businesses have a strong presence in industries that have been hard-hit by the pandemic such as the restaurant industry. Industries that were mostly shielded from the effects of the pandemic, such as finance and information services are led by and/or employ some of the lowest numbers of Latinos. At the outset of the pandemic, Latinos (and specifically Latinas) showed the highest unemployment rates in the nation.

In 2019, before the pandemic landed, Latino-owned businesses had hit a record-breaking stride, with their average annual revenue increasing 10% to over $525,000 per year. We are hopeful that this upward trajectory can be harnessed again. This will partly be achieved through the success of government interventions that support and include small and minority-owned businesses through this next phase of recovery.

__NALCAB's Small Business-Focused Pandemic Response & PPP-related Lending__

As part of NALCAB's pandemic responsive grant making, we provided 120 nonprofits with over $15 million in grants to help keep the small- and minority-owned businesses in their communities afloat.

In addition, NALCAB was called upon to provide capital to several of our CDFI members to facilitate their Paycheck Protection Program-PPP lending during the pandemic. Our CDFI members faced liquidity challenges when the demand for PPP loans outpaced the size of their loan funds. Much like the clients we serve, Latino-led and Latino-serving CDFIs had trouble accessing immediate and inexpensive capital. Therefore, NALCAB stepped in and ultimately loaned our members $12 million for PPP lending which resulted in them making over 600 PPP loans to small and minority-owned businesses in their communities.

NALCAB member CDFIs including heavy hitters like Accion Opportunity Fund, Self-Help, LiftFund, and CDC Small Business Finance were able to provide business clients with PPP loans when banks could not or would not. In fact, NALCAB member Chicanos Por La Causa's Prestamos CDFI was the third highest PPP lender in the nation behind JP Morgan Chase and Bank of America. CDFIs overall outperformed their $15 billion set-aside from congress by making over $30 billion in PPP loans.

Constructive Feedback on Select Recovery Programs

We commend the federal government for its swift and responsive funding and programming to offset the economic impact of the COVID-19 Pandemic. As we begin another year of living with the pandemic, we wanted to provide some constructive feedback on select recovery programs.

PPP has been one of the most important sources of recovery support for businesses as they've struggled to stay afloat during the pandemic. It has also been one of the most critical resources in terms of retaining jobs in America's small businesses---that are the top job suppliers and creators in the nation.

There have been some issues with the program that we wanted to include in these remarks on behalf of our network and the small businesses they serve. First, the exclusion of CDFIs in the first round of PPP lending delayed relief to countless small and minority-owned businesses that look to CDFIs as their lenders of first resort and that were turned away by commercial banks. Once CDFIs were brought in, there were still systemic challenges to navigating the overloaded application portal as well as capacity challenges within CDFIs to manage the incredible demand for the product. We commend the SBA for working to provide dedicated time windows for CDFI-driven PPP applications as well as we commend Congress for setting aside such significant funds for CDFIs to do PPP loans.

In the current phase of PPP forgiveness, there are challenges around errors and excess loan amounts impeding the provision of loan forgiveness to a group of small business owners. We wanted to be sure to note that loans that were made in the initial stages of the PPP program in 2020-when there was some confusion regarding calculation of loan requests-have resulted in good faith errors that generated some PPP loans that exceeded borrowers' correct maximum amounts. In January of 2021 the SBA's Procedural Notice informed PPP lenders of said excess loan amount errors.

Unfortunately, the responsibility has fallen on borrowers to repay and/or not be granted forgiveness on excess loan amounts. While we do not support the forgiveness of fraudulent loans, we do not think it is correct to penalize borrowers for good faith errors that they, or especially their lenders, made in misinterpreting the original PPP lending guidance. Especially in cases of small loan amounts, this seems like undue effort to squeeze dollars out of the very borrowers that the PPP program was designed for-borrowers that most certainly used every cent of their PPP loan to ensure that their businesses stayed open and that their employees stayed on payroll.

The experience of our network has resoundingly been one where the majority of our CDFI member PPP loans made have been forgiven. We surveyed 20 NALCAB members that provided PPP loans and they reported that only between 1-10% of their clients' forgiveness applications have been denied. Of those denials, they cited lack of proper documentation, language barriers, a misunderstanding of compliance with program rules, and technology barriers as some of the reasons for PPP loans not being forgiven. These observations provide useful guidance as we move into this next stage of small business recovery and are the basis of our recommendations.

The SBA's Restaurant Revitalization Fund, which was cut from $60 billion to less than half of that ($28 billion) provided much-needed pandemic recovery support to the restaurant industry. The restaurant industry has arguably been the hardest-hit sector during the pandemic. So, not surprisingly, the funds were completely expended within one month of the program's launch. Advocates have actively supported additional funding for this program, with a flurry of activity just this past Tuesday to push for more Restaurant Revitalization Funds. The Build Back Better bill included funding for restaurants but was not passed. Still, additional funding for restaurant relief has wide support from most members of congress. We are hopeful that this funding will be replenished soon---as it is very relevant to the Latino community in terms of high Latino restaurant business ownership and employment.

The Department of Treasury's State Small Business Credit Initiative, part of The American Rescue Plan Act, allocated $10 billion to fund state, territory, and Tribal government small business credit support and investment programs. SSBCI funds can be used to develop capital access programs, other capital support programs, and venture capital investments. What is attractive about this program is the flexibility it provides states to design their own small business support programs in a way that is reflective of the unique economic circumstances and conditions in their regions. This is a revamping of the original SSBCI program that was launched after the great recession and that has great potential to reach diverse small businesses, especially through state partnership with CDFIs working on the ground to get capital into the communities and businesses that need it most. The program's success will hinge on its ability to involve mission-based investors working with and for communities.

RECOMMENDATIONS FOR PROVIDING INCLUSIVE RECOVERY FOR SMALL- AND MINORITY-OWNED BUSINESSES

Low Barrier-to-entry Programs for both Small and Minority-Owned Businesses and the Organizations that Serve Them

Of small businesses surveyed by the Small Business Administration-SBA, 37% of respondents stated that they didn't apply for PPP because they did not feel they qualified for the loan or for forgiveness. Another 23% said they didn't apply because the program/process was too confusing. 13% responded that they could not find a PPP lender.

In developing future recovery programs and legislation, the barriers to access from the point of view of ease (or lack of ease) of applying should be considered seriously. In addition, efforts must be made to provide equal access to information on programs as well as clear direction on what entities are offering the program within communities.

Moreover, some of the challenges faced by small- and minority-owned businesses are mirrored by challenges that community-based organizations and CDFIs experienced in getting on-boarded to deliver federal recovery programs. We must take better care in making sure that the very systems we have erected to bridge racial and ethnic wealth divides to not exclude those organizations that are deeply rooted in communities and best equipped to serve low- to moderate-income entrepreneurs.

The new SBA Community Navigator model provides promise insofar as it aims to better connect small businesses to SBA programming through a hub-and-spoke model that is firmly rooted in communities. We gladly report that several NALCAB members are partners in Community Navigator programs that are currently being launched nationwide. We also commend the SBA in proactively pursuing community-based organizations' input. We are currently in bi-weekly discussions with the SBA along with NALCAB member organizations to provide feedback on and input into current and upcoming SBA products.

The CDFI Fund's Community Development Advisory Board, which I Chair, is also a proactive channel for gaining input on program development from a diverse set of community-grounded stakeholders. We commend the Department of Treasury for its significant financial commitment to small business recovery as well as its ongoing work to include underrepresented voices in the design, launch, and review of new and existing CDFI Fund programs. The current Community Development Advisory Board is made up of a racially- and ethnically-diverse group of practitioners and stakeholders that will bring to bear a broad set of perspectives to inform CDFI programming moving forward.

Improved Collection of Data and Transparency in Lending

Small Business Lending activity and practices have gone without meaningful monitoring for far too long. The parallel mortgage lending activity has been held to much more rigorous reporting and data collection standards and it is due time for commercial small business lenders to be held to comparable standards.

Section 1071 of The Dodd-Frank Act mandates the collection of dissemination of small business lending data to facilitate enforcement of fair lending laws and enable communities, governmental entities, and creditors to identify business and community development needs and opportunities of women-owned, minority-owned, and small businesses.

NALCAB has been a leader in advocacy for Section 1071 of the Dodd Frank Act to be implemented. Once implemented, Section 1071 will prove what community-based small business lenders have only been able to rely on anecdotal and self-reported evidence to justify---which is the fact that ethnic, racial, and gender biases negatively impact the ability for minority-owned small businesses to access capital. Without application-level data about the characteristics of the applicant, the credit sought, and the action taken on the application (including both decisions to approve or deny and pricing decisions) it is not possible to begin to identify fair lending violations or, at least, fair lending concerns that warrant further investigation. Without this data, both public and private sector lenders are very limited in their ability to develop products that address inequities in access to credit and to assure that small, minority-owned businesses obtain the support they need to realize their full potential. The comments we submitted to the Consumer Financial Protection Bureau (CFPB) last month in response to its public comment period further highlight in detail the importance of implementation on communities and small businesses of color.

Due to the adverse economic effects of the pandemic, small- and minority-owned businesses are more susceptible to predatory lending practices than ever before. NALCAB supports the Small Business Lending Disclosure Act that aims to protect small business borrowers from predatory lenders and loans carrying unfair terms and conditions and would ensure safeguards already required in consumer lending through the Truth in Lending Act. The bill bolsters the role of the Consumer Financial Protection Bureau in policing small business lending and will bring enhanced transparency to small commercial loans.

We applaud this legislation that will help guard against unsafe lending products and ensure that small- and minority-owned businesses have the responsible capital needed to help them spur economic growth and create quality jobs.

Narrowing the Technology Gap

A final recommendation is to support the commitment of resources toward efforts to narrow the technology gap for small- and minority-owned businesses. This is a longer-term strategy that stands to have significant impact on connecting underrepresented businesses to recovery programs as well as to bolster the overall sustainability of small- and minority-owned businesses, regardless of the economic environment.

Community-based small business service providers and lenders have shared that they have either implicitly or explicitly woven computer literacy and technology integration into their service provision models. Many underserved small businesses lack basic computer skills and/or do not have acceptable access to hardware, software, or internet connection. This impedes their ability to access information on government recovery programs. It also reduces their capacity to apply for programs when they do not have a computer to use to apply online, the technology to convert hard-copy documents into electronic attachments, or a reliable internet connection to sustain the time required to complete an electronic application. These are gaps that can be taken for granted in the design and implementation phase of recovery programs and the exclusion of a subset of entrepreneurs is difficult to measure (as it requires measuring inactivity vs. activity).

My own experience as a practitioner, as well as the feedback we've received from our members, validates the significant challenges that the technology gap presents to minority and lower-income small business owners. We are actively participating in listening sessions being held by the National Telecommunications and Information Administration-NTIA on upcoming programming funded by $48.2 billion that has been allocated to NTIA to deploy broadband to unserved and underserved communities, create more low-cost broadband service options, and address the digital equity and inclusion needs in our communities.

Many thanks for this opportunity to testify and I look forward to answering your questions.