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"Small Business, Big Impact: Ensuring Small and Minority-owned Businesses Share in the Economic Recovery."

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Chair Perlmutter, Ranking Member Luetkemeyer and members of the House Financial Services Committee Subcommittee on Consumer Protection and Financial Insitutions, thank you for the opportunity to testify at today's hearing titled: "Small Business, Big Impact: Ensuring Small and Minority-owned Businesses Share in the Economic Recovery." My name is Stephanie DeVane and I am the Vice President of Entrepreneurship & Business Development at the National Urban League. I bring you greetings on behalf of Marc Morial, our President and CEO.

The National Urban League is an historic civil rights, community-based organization dedicated to economic empowerment and the guarantee of civil rights for African Americans and other underserved communities in America. As a national nonprofit intermediary, we provide direct comprehensive services that improve the lives of nearly two million people each year, through our network of 91 Urban League affiliates in 36 states and the District of Columbia.

As the Vice President of Entrepreneurship & Business Development, I manage, oversee, and advocate on behalf of 12 Urban League Entrepreneurship Centers located in in Atlanta, GA; Baltimore, MD; Chicago, IL; Cincinnati, OH; Cleveland, OH; Houston, TX; Jacksonville, FL; Las Vegas, NV; Los Angeles, CA; New Orleans, LA; Philadelphia, PA; and Washington, DC.

Through our experience working with entrepreneurs all over the country, we have seen the disparate impact the effects of the Covid-19 pandemic on minority-owned small businesses and the need to improve fair access to credit and transparency in lending in federal lending programs. Additionally, I want to stress the importance of supplier diversity and community-based Small Business Development Centers to ensuring Black entrepreneurs and other smalls business owners of color share in the nation's economic recovery.

National Urban League Entrepreneurship Center Program

The National Urban League's Entrepreneurship Center (EC) Program provides management counseling, mentoring, and training services for entrepreneurs looking to start, grow, or scale their business. Services include comprehensive business planning and support, financial/credit education, access to capital, business to business networking, contracting/procurement opportunities, and certification. The skills learned enable minority entrepreneurs to improve operations, increase capacity, obtain financing and contracts, and better serve their customers, with the goal of creating jobs that will lead to sustainable businesses, and ultimately generate wealth for themselves, their families, and communities.

Our centers serve entrepreneurs of all racial, gender and socio-economic demographics, but the most frequent Urban League Entrepreneurship Center Program client is an African American woman, who is earning a low to moderate income and has an existing business.

The National Urban League's Entrepreneurship Centers have served as the first line of defense in keeping the doors of our entrepreneur-clients open during the ongoing pandemic. They've hosted webinars to guide entrepreneurs through federal loan and grant applications, provided direct assistance to many small businesses experiencing cash flow issues, disseminated timely updates from the Small Business Administration and other agencies, and shared resources from partner organizations. They've also offered general information and resources to help entrepreneurs manage business processes and develop disaster recovery plans.

In June 2020, the National Urban League received a one-year CARES Act Award from the Minority Business Development Agency (MBDA) which enabled our Entrepreneurship Centers to provide small business and minority business enterprises with technical assistance, training, education, and advisory services to fill the gaps revealed by the COVID-19 pandemic. Between June 1, 2020 and May 31, 2021, our 12 Entrepreneurship Centers served approximately 11,253 clients through counseling (5,100 counseled in 13,300 sessions over 15,800 hours) and training activities (7,100 trained with attendance of 14,600 over 33,200 hours). We helped clients secure $137.6 million in financing and contract opportunities, as well as save or create 1,174 full and part-time jobs.

Services provided with support from the CARES Act award include:

- Increasing access to capital and business resiliency;
- Identifying and mitigating economic effects arising from lack of systems in place to maintain operations and prevent business disruption;
- Identifying and mitigating inadequate financial management practices that increased risk and reduced profitability; and
- Identifying and changing less flexible operating models that could not easily be shifted during stay-in-place mandates and contributed to loss of the business, staff, or revenue.

In addition, the National Urban League was just awarded a $5 million Small Business Administration Community Navigator Pilot Program (CNPP) award which will allow us to work with 25 Urban League Affiliates to reduce barriers for minority-owned businesses through critical support and resources.

The CNPP will reach and support underserved small businesses, including micro and rural businesses, with emphasis on those owned by women, veterans, and socially and economically disadvantaged individuals to help them recover from the effects of COVID-19. The National Urban League will operate as the hub overseeing and supporting 25 Urban League spokes, in cities across the country delivering individualized counseling, mentoring, training, and technical assistance to small businesses through workshops and printed materials, delivered online as well as in-person.

Specifically, our affiliates will:

- Assist entrepreneurs to recover from the pandemic's effects within their operations and provide information and tools to stabilize and grow their businesses;
- Utilize their extensive networks of partnerships and community relationships to conduct targeted outreach to businesses most affected by the pandemic as well as partner with other local organizations who offer services to low- and moderate-income minority and women-owned businesses; and
- Provide comprehensive business planning and support, financial and credit education, advisory services, opportunities for business-to-business networking, access to financing and contracting/procurement opportunities, and assistance with obtaining various business certifications.

In 2021, in partnership with PepsiCo Foundation, NUL launched the Black Restaurant Accelerator Program (BRAP) to help address systemic barriers faced by Black-owned food service companies, particularly in the time of COVID-19. The $10 million, 5-year program comprises cash grants to 500 businesses and technical assistance, including entrepreneurial coaching and training on various operational and financial topics. The grants have been a lifeline for many struggling Black foodservice businesses unable to obtain or qualify for PPP loans or meet the stringent conditions of certain grants.

I would like to share the story of De'Lish Cafe, a Cajun-Creole comfort food restaurant based in Dayton, Ohio. In 2018, De'Lish closed its doors after eight years. In January 2020, owner Jasmine Brown began selling food again, and shortly after, opened the De'Lish food truck. But because Jasmine had no business in 2019, she could not prove a loss, and though numerous local and state grants were available, the business did not qualify for those funds. Jasmine said, "So, when [the BRAP grant] came along, it was just a good feeling like, 'Okay, well there's something out there'. It's hard when you have a business. (In terms of) most food trucks, we have less than five employees, and for some of us, it may be only us." She was thankful the BRAP didn't have the type of eliminating criteria that other grants had and expressed her hope that more such grants would be available for businesses that are "extra small."

Impact of the Pandemic on Black-Owned Business

Jasmine represents one of many Black entrepreneurs who were disproportiationately impacted by COVID. However, unlike Jasmine who was able to secure private sector funding to shore up her small business, most were not as lucky. According to data on small businesses from the Federal Reserve Bank of New York, nearly half (41%) of Black-owned businesses closed between February and April 2020, compared to just 17% of white-owned firms. [1] The COVID-19 pandemic added to the impact of systemic racism and the racial wealth gap in communities of color. Black and other minority-owned business were already financially disadvantaged before the pandemic. Most had weak capitalizations, limited bank relationships and little in cash reserves to cushion the financial impact of forced closings, modified re-openings, and weakened demand due to the pandemic.[2] In fact, a September 2021 Federal Reserve study found that that 51% of Black-owned businesses have less than three months of cash reserves in case of an emergency or another COVID shutdown – a figure nearly 7 percentage points greater than their peers.[3]

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[1]https://www.newyorkfed.org/medialibrary/media/smallbusiness/DoubleJeopardy_COVID19andBlackOwnedBusinesses
[2]Ibid.
[3] https://www.goldmansachs.com/citizenship/10000-small-businesses/US/infographics/the-covid-surge-is-slowing-the-road-to-recovery/index.html

Having access to capital can help bridge the gap for Black small business owners. However, research shows that Black business owners are more likely to be denied capital compared to white conterparts even with similar creditworthiness. In June 2021, McKinsey & Company reported that Black-owned businesses are 20% less likely to get a loan than businesses with white owners, and these businesses often lack access to a supportive network due to implicit bias and the legacy of racism.[4]

Lessons Learned from the PPP Program

Some of these challenges could have been prevented or at least addressed through federal intervention. Unfortunately, the Paycheck Protection Program (PPP), which was designed to be a lifeline for struggling small businesses, left most of our minority-owned business behind, reaching just 20% of eligible firms in states with the highest density of Black owned firms.[5]

The National Urban League called on Congress to enact stringent protections on PPP funds to ensure the funds would be directed to businesses with the greatest need for this important lifeline. Our recommendations included: establishing set-asides for the smallest U.S. businesses and sole-proprietorships; mandating the collection and releasing of the lending, demographic, and revenue data of all the small business owners to whom banks had extended credit; instituting affiliation rules; requiring institutions to adhere to existing federal fair lending laws; and urging banks to take affirmative outreach steps to minority-owned small business, many of whom were unable to access the previous iteration of PPP due in part to the lack of access to important and longstanding banking relationships that made accessing such credit opportunities for their white counterparts possible.

Moreover, we urged Congress and the Trump Administration to dedicate PPP funding resources and rapid authorities to Minority Development Institutions and Community Development Financial Institutions as well as other small lenders with a strong track record of providing access to capital fund to underserved small businesses and nonprofits in hopes of better mitigating the pandemic's detrimental economic impact that threatened the millions of entrepreneurs in the communities served by these institutions. These requests were never met and the federal response was inadequate at best, failing to reach many if not most of the hardest hit areas. [6]

Researchers from New York University also found that Black borrowers who were able to obtain PPP loans disproportionately received them from fintech companies and not banks.[7] While fintech automated systems and algorithm methods tend to reduce racial disparities in lending, their popularity is not without issues. These unregulated products often lack transparency and come with unfair terms which can harm ill-informed, vulnerable minority borrowers. Full disclosure of pricing and terms, responsible underwriting, fair treatment from brokers, and fair collection practices are critical to protecting the rights of these businesses.

The National Urban League has worked closely with the Responsible Business Lending Coalition (RBLC), a network of non-profit and for-profit lenders, investors, and small business advocates committed to innovation in small business lending, to address the rise of irresponsible small business lending. RBLC's recent policy success includes passage of a New York state fair collections practices law, which bans the use of Confessions of Judgment for business loans originating out of state, and New York and California

[4] https://www.mckinsey.com/about-us/covid-response-center/inclusive-economy/black-owned-businesses-face-an-unequal-path-to-recovery
[5]https://www.newyorkfed.org/medialibrary/media/smallbusiness/DoubleJeopardy_COVID19andBlackOwnedBusinesses
[6] IBID
[7] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3939384

small business lending disclosure laws. Final regulations have not yet been released for these bills. NUL is also a signatory to the *Small Business Borrowers' Bill of Rights*, which identifies six fundamental financing rights that RBLC believes all small businesses deserve, though in most cases, are not yet protected by law. These rights include transparency and fair and equitable treatment. Additionally, NUL was involved in the passage of New York's small business Truth-in-Lending Act (TILA) bill.

The Need for Access to Fairness and Transparency in Lending

This next phase of our nation's economy recovery is an opportunity for our leaders to get it right. For communities of color, generational wealth remains elusive, which means that access to fair, stable, transparent, and flexible long-term capital is virtually the only way entrepreneurs in these communities can sustainably grow their businesses. To that end, the legislation to be discussed before the Committee today, coupled with stringent enforcement of longstanding federal fair lending laws, provide a strong framework for providing our nation's main street businesses with the access to capital and resources they need to grow their businesses and boost the U.S. economy. Following are the National Urban League's recommendations to increase access to fairness and transparency in lending.

1. *Support passage of the Small Business Lending Disclosure Act of 2021* (H.R. 5064)

As stated above, the National Urban League was an early endorser of the *Small Business Lending Disclosure Act of 2021,* which requires all products and providers to disclose their financing terms.We are current endorsers of companion lending disclosure bills in both chambers, including the legislation before the Committee today. Our view is simple: as technological advancements in the financial marketplace bring about new innovations to the way businesses borrow money, it is important to have fair ground rules that allow small businesses in every community, including historically underserved areas, to access the safe, stable, and sustainable financing opportunities they need to grow. These tools are simple: transparent disclosure of terms; banning of predatory and abusive loan products; fair and reasonable repayment and loan underwriting terms; sensible oversight protections; and fair and decent treatment by lenders. We would like to thank House Small Business Committee Chairwoman Velazquez for her leadership on the bill and Subcommittee Chair Perlmutter for cosponsoring the bill.

2. *Implement Section 1071 Truth-in-Lending Act (TILA) for Small Business Disclosures*

As you may know, Section 1071 of the 2010 Dodd-Frank Wall Street Reform and Consumer Protection law (Dodd-Frank) requires the Federal government to collect and publish data on small business lending. The purpose of this rule was to create a more comprehensive view of nationwide lending practices and a way to identify barriers that prevent small business owners in traditionally underserved communities from accessing the capital and credit needed to grow their businesses. The law also tasked enforcement of this provision to a new federal agency created under it: the Consumer Financial Protection Bureau (CFPB). Unfortunately, implementation of this important rule has been delayed for more than 12 years.

The National Urban League was pleased that the Biden Administration moved ahead with rulemaking on small business lending data, making this an early prioritiy in this Administration. Once finalized, the transparency brought about by the implementation of this important rule will help us identify solutions to ensure that creditworthy small business owners in underserved communities can meet credit and capital needs to grow their businesses. In addition, the *Small Business Lending Disclosure Act of 2021* requires all products and providers to disclose their financing terms, and we urge CFPB to do the same in the scope of Section 1071 rulemaking. This transparency would help protect Black and Hispanic-owned businesses against predatory lending products given Federal Reserve research, which shows these communities are twice as likely to use "higher cost and less transparent financing."

3. *Ensure Strong Supervisory Enforcement of the Equal Credit Opportunity Act of 1974*

Our nation's federal financial regulatory agencies must take their statutory mandate to supervise U.S. lending institutions for enforcement of the *Equal Credit Opportunity Act* (ECOA) compliance seriously. Regulators must vigorously work to ensure that banks chartered to provide lending services in the U.S. aren't discriminating against U.S. taxpayers. Banks with egregious track records must face the appropriate recourse for failing to hold their end of the bargain, including losing their privilege to have funds held at their banks insured by U.S. taxpayers, if necessary.

4. *Promote and Invest in Supplier Diversity Programs*

The federal government should be more intentional about promoting supplier diversity programs that help minority-owned business enterprises gain access to new business opportunities and audiences that can lead to capital and additional contract opportunities. During the pandemic, various previously underutilized minority-owned suppliers had capacity and resources when other firms did not and were sometimes able to resolve supply chain issues. Supplier diversity programs can help address these supply chain issues while ultimately creating jobs and wealth in underserved communities.

5. *Invest in Community-based Small Business Incubators*

The federal government should also invest more resources in community-based Small Business Development Centers and national nonprofit intermediaries that provide targeted, culturally relevant training and technical support to develop and grow minority-owned businesses. These organizations are trusted messengers that can help Black entrepreneurs overcome many of the challenges associated with starting and operating a business, which are less prevalent among white-owned business owners.

The federal government has the opportunity and the responsibility to ensure Black entrepreneurs and other business owners of color have access to fair and transparent capital, credit, and other financial tools and resources they need to share in the nation's economic recovery. This is a vital part of creating economic stability and wealth creation in underserved communities. On behalf of the National Urban League, we appreciate the Committee's consideration of these views and commit to working with you on solutions that ensure all small businesses can build back better in the new economy.

This concludes my testimony. I look forward to your questions.