

**TESTIMONY OF EVERETT K. SANDS, CEO OF LENDISTRY,
TO THE HOUSE SELECT COMMITTEE ON ECONOMIC DISPARITY AND FAIRNESS IN GROWTH**

**“Big Ideas for Small Businesses: Fostering American Entrepreneurship Through Starting, Sustaining
and Growing Small Businesses”**

March 16, 2022



I. Executive Summary

A staggering nearly ten million new businesses were formed in the past two years, an annual rate that is more than 50 percent higher than the average annual rate of new business formation from 2010 to 2019. The “Great New Business Formation” is also remarkable for the diversity of its composition. It comes at a crossroads in time – on the heels of both a crisis that exposed significant disparities in access to capital among minority small business owners and a concerted effort by Congress to increase the availability of small business capital, and as the economy enters an inflationary and rising interest rate environment.

The good news is that the recent past has provided the information and resources necessary to help guide Congress in generating the best return on investment for small business there has ever been (i.e., with little or no incremental public expenditure), and to avoid predictable consequences of inaction and failing to learn from recent experience.

Four messages for this Select Committee shape 11 specific recommendations in this testimony:

1. Congress’s efforts in support of small business should not only be large bank-centric.
2. Congress should focus on specific actions to clear away bottlenecks preventing the nation’s more than 1,200 CDFIs, which have demonstrated they are masters in the craft of reaching and working with small businesses, from making greater use of powerful tools Congress already has created.

→ *Summary recommendations:*

- Permit the Federal Home Loan Bank (FHLB) to accept federally guaranteed small business loans as collateral from CDFIs
- Require the FHLB to assign CDFIs the same credit ratings as banks and/or create a loan credit enhancement fund
- Lower the CDFI Bond Guarantee from \$100 million to \$25 million
- Exempt CDFIs from state licensing requirements
- Allow CDFIs to access the Federal Reserve discount window
- Enhance the incentives for banks to provide capital to CDFIs

3. Congress can also make a significant positive impact by establishing mechanisms for accountability and coordination.

→ *Summary recommendations:*

- Develop a reporting system for measuring performance of public agencies and entities responsible for administering capital deployment programs geared to Socially and Economically Disadvantaged Individuals (SEDIs), covering allocations for lending and technical assistance



- Create a federal office dedicated to supporting the efforts of Minority Lending Institutions
4. Congress should support the SBA in ensuring that it both evolves with the needs of small businesses and leverages lessons taught through the crucible of the PPP experience.
- *Summary recommendations:*
- To reverse the decline in sub-\$150,000 loans, apply lessons from PPP
 - Increase loan maximums for 504 and 7(a) programs
 - Make Community Advantage permanent and increase loan maximum to \$350,000

II. Introduction

Select Committee Chairman Himes, Ranking Member Steil and distinguished members of the Select Committee, thank you for service on this Select Committee, whose very name recalls the mission of Lendistry, as a community development financial institution (CDFI). Thank you as well for holding a hearing to broadly examine entrepreneurship and small business development, and for inviting me to share insights and recommendations with you.

My name is Everett K. Sands, and I am an entrepreneur who is dedicated to fellow entrepreneurs and small businesses, and to economic opportunity for those who historically have been underbanked and unbanked. By training, I am a banker, with more than 20 years of experience in lending at Minority Depository Institutions, at one of the largest national banks, and at the only fintech CDFI, Lendistry. I have served as a Board Member and an Executive for two minority deposit institutions; as a sales team leader for a national bank on both the East and West coasts; as a member of committees focused on compliance, rate-risk, and commercial lending; and as a leader of credit and operations departments. I also currently serve as a Board Member of the University of Pennsylvania's Institute for Urban Research, and of Lendistry's nonprofit small business advisory and technical assistance affiliate, The Center for Strategic Economic Studies and Institutional Development ("The Center").

As a banker I typically served in a change agent capacity, being called in to turn around a unit of a bank, and as such, units I have led typically recorded annual growth rates of between 300% and 600%. I have closed more than \$10 billion in transactions. During my career, businesses I have led have been regulated by the Federal Deposit Insurance Corporation, Federal Housing Administration, Federal Housing Finance Agency, Federal Home Loan Bank of San Francisco, Office of Comptroller of Currency, Office of Thrift Supervision, Small Business Administration, Veterans Administration, and various state regulators.



For the past more than six years, as founder and CEO of Lendistry, my focus has been on providing access to capital on a responsible basis to underserved small businesses, and particularly those owned by minorities, women, veterans, and people in rural areas.

I recruited a team to start Lendistry with me because I saw that consolidation trends in the community banking and regional banking segments were leaving an expanding gap in the small business lending market. Small businesses that were ready to graduate beyond financing themselves through credit cards and home equity were finding far fewer community banks available to help them take the next step in their growth so that they eventually could become large enough for a large regional or national bank to serve them. Into this credit vacuum for small businesses, unscrupulous lenders have proliferated and thrived.

This adverse capital availability environment for small businesses was, and continues to be, compounded for entrepreneurs with historically weaker ties to traditional banks, including women and minorities, as well as entrepreneurs based in rural areas with fewer banking options. I believed technology could play a significant role in the solution, and by approaching fintech from my banking background rather than from a technology background, I believed I could bring a somewhat differentiated lens to the market.

III. About Lendistry

In addition to being a minority-led fintech CDFI, Lendistry is Community Development Entity (CDE) and a member of the Federal Home Loan Bank of San Francisco. Women and minorities comprise a significant majority of Lendistry's management team. Our proprietary technology and online application portal enable a faster and more widely accessible lending process for small business borrowers. As a CDFI, Lendistry is dedicated to providing economic opportunities and progressive growth for underserved urban and rural small business borrowers and their communities. The Center also offers business coaching, financial education, and technical assistance. Lendistry is a proud signatory of the Small Business Borrowers' Bill of Rights, guidelines set by The Responsible Business Lending Coalition.

Since launching in 2015, Lendistry has sought to use fintech—and partnerships with financial institutions, non-profits, and government organizations—to help solve the problem of disparities in access to capital, to open doors that were previously closed to small businesses owned by minorities, women, and veterans, businesses located in rural areas, or businesses whose financing needs to take the next step in their development but are just too small for traditional banks.

As a hybrid of a fintech lender and community bank, and with roots in traditional banking as mentioned above, Lendistry combines the best of fintech—efficiency, scalability, and seamless



user experience—with the best of traditional lending—low cost of acquisition, low cost of funds, and strong risk management—and all with an unwavering commitment to responsible credit culture and expanding access to small business funding.

Today, Lendistry is one of the top SBA Community Advantage lenders, a pilot program spearheaded in 2011 to increase SBA-guaranteed loans to small businesses in underserved areas. Community Advantage loans range in size between \$50,000 and \$250,000, and are the only type of SBA loan in which Black and Latinx borrowers, combined, account for more than 10% of annual loan volume. More than 60% of Lendistry’s outstanding principal loan balance is with minority and women-owned borrowers, more than 70% is to underserved small businesses, and 60% is with low- or moderate-income borrowers.

Lendistry also has a highly nuanced understanding of small business ecosystems. In 2020, Lendistry, Next Street Financial, Concerned Capital, and other local stakeholders, published a detailed examination of the current small business community and supporting ecosystem in Los Angeles County, with a focus on local businesses owned by people of color and the COVID-19 response and recovery.¹ Based on the learnings from that study, Lendistry’s nonprofit affiliate last year launched the Los Angeles County Small Business Resiliency Program.²

Ecosystems and partnerships are fundamental to Lendistry’s operating method and philosophy. Lendistry has partnerships in place with more than 100 organizations, including business associations, chambers of commerce, CDFIs, and mission-based organizations. These partners in turn have extensive networks, enabling Lendistry to reach underserved geographies and demographics, and provide services and support in more than 15 languages.

With our reach, technology, and operational and capital capacity, Lendistry has both the ability and interest to fill a far greater portion of the lending gaps left by mainstream finance than we do today, for the benefit of small businesses, and particularly those owned by minorities, women, veterans, and those in rural areas.

IV. The Imperative to Leverage Experience and Existing Resources for Enduring Small Business Benefits

New business formation, and small businesses in general, are engines of job creation in economic recoveries. Small business ownership remains the most effective path available to minorities to narrow the racial wealth gap, just as it also holds promise for narrowing the

¹ <https://nextstreet.com/portfolio/la-county-small-business-ecosystem-assessment/>

² <https://www.newswire.com/news/the-center-by-lendistry-launches-small-business-resiliency-program-for-21410424>



gender pay gap. Lendistry’s focus on small and minority and women-owned businesses, and our ability to efficiently process high volumes of applications, have enabled us to make an impact at a critical time and to gain unique insights.

Over the past 23 months, Lendistry has deployed approximately \$8.4 billion in government COVID relief grants and PPP loans to more than 570,000 small businesses, 94% of which employ fewer than 10 employees. We project that by year-end we will eclipse the \$10 billion mark in total capital deployed. In addition to providing PPP loans in all 50 states, Lendistry has served as the administrator for COVID relief grant programs offered by the states of California, New York and Pennsylvania, as well as New York City, among others.

The small business environment remains challenging, due to recurring waves of COVID, combined with rising costs for goods, energy and labor. Congress responded to the economic threat posed by COVID in bold and historic ways, and while there is more that can be done, entrepreneurs always look ahead, and I want to focus today on enduring solutions for small business capital access.

I am here to shine a light on the record nearly ten million new businesses that were started over the past two years, and recommend to this Committee ways that, at little or no additional cost to taxpayers, resources and institutions that already exist – many of which exist thanks to you and your colleagues – can be utilized to their full potential to create enormous positive impacts for small business, for the economy and for opportunity geared towards underserved and undercapitalized small businesses. To put it in business terms, I believe Congress can generate the best return on investment for small business, the economy and opportunity there has ever been.

It is worth spending a moment to appreciate the remarkable figure just cited – nearly ten million new businesses were formed in 2020 and 2021, according to the US Census Bureau³. The nearly 4.4 million new businesses formed in 2020 was more than 50 percent higher than the average annual number of new businesses formed between 2010 and 2019⁴. In fact, 2020’s new business formation figure was a record, but it only stood for just one year before it was far surpassed by the 5.4 million new businesses formed in 2021⁵. (This “Great New Business Formation”, I believe, is the less-examined other side of the coin to the “Great Resignation”, and large enterprises seeking solutions to the latter phenomenon will find them in the former.)

³ “New Startups Break Record in 2021: Unpacking the Numbers,” Daniel Newman and Kenan Fikri for Economic Innovation Group, January 19, 2022. <https://eig.org/news/new-start-ups-break-record-in-2021-unpacking-the-numbers>

⁴ “Entrepreneurs Started Businesses in Record Numbers During the Pandemic,” Brett Grossfeld for Salesforce.com’s The 360 Blog, June 29, 2021. <https://www.salesforce.com/blog/small-business-pandemic-entrepreneurs/>

⁵ D. Newman and K. Fikri



Furthermore, a raft of data has emerged in recent months revealing how significant a role minority and women entrepreneurs have played in the recent new business formation activity⁶⁷⁸, building on their already-strong pre-pandemic entrepreneurial representation⁹. It is urgent that policymakers and large enterprises alike recognize the implications of these trends. It means minorities and women will be increasingly impacted by policies around small business and capital access. It also means - particularly in light of the “Great Resignation” - large enterprises will need to shift their procurement strategies from treating diversity as an obligation or a “nice to have” to treating it as a strategic imperative and investing resources into their suppliers (e.g., providing financing for licensing and certifications) in much the same way they do with employees.

The opportunity available from smart and decisive Congressional action is historic, just as the risks from inaction are predictable.

- With action, many more of those newly-formed ten million small businesses – plus the 22.5 million longer-standing small businesses – will have access to the capital they need on affordable terms, even as interest rates rise.
- With action, many more of those newly-formed ten million small businesses will make the leap from employing just their founder to becoming greater engines of job creation and economic activity in their communities and industries.
- With action, the historically high percentage of those ten million new small businesses which are owned by Black people, by Brown people and by women will narrow the gaps in racial wealth and gender pay.
- With action, these newly-formed ten million small businesses – this nation’s Great Business Formation – will solve large enterprises’ “Great Resignation” human resources problem.
- With action, the high-volume business model that predatory lenders rely upon will become economically untenable due to greater availability of capital on better terms – yes, good old marketplace competition.

⁶ “Black Business Owners Are Up 38% from Pre-Covid Levels,” Michael Sasso, *Bloomberg*, September 15, 2021. <https://www.bloomberg.com/news/articles/2021-09-15/black-business-owners-are-up-38-in-u-s-from-pre-covid-levels?sref=2gRIZMND>

⁷ “Black-owned businesses took a pandemic hit, but they’re doing better than ever now – largely because of Black women,” Jason Lalljee, *Insider*, February 7, 2022. <https://www.businessinsider.com/black-women-businesses-fuel-increase-pandemic-hit-entrepreneurship-covid-2022-2>

⁸ “Black women are the fastest growing group of entrepreneurs. But the job isn’t easy,” Elana Dure, J.P. Morgan Chase, October 21, 2021. <https://www.chase.com/personal/investments/learning-and-insights/article/black-women-are-the-fastest-growing-group-of-entrepreneurs-but-the-job-isnt>

⁹ “Black Entrepreneurship Represents Highest Rate in U.S.,” Bryan Lipiner, Global Entrepreneurship Monitor, August 13, 2020. <https://entrepreneurship.babson.edu/gem-data-black-entrepreneurship-us/>



Without action, however, I fear there will be hearings in 12 or 18 months to examine another crisis of small business failures. At those hearings for an avoidable crisis, there will be a focus on the disproportionate percentage of minority and woman-owned small businesses that have failed or stagnated since 2021. Experts at those hearings will diagnose various causes. There will be testimony about the impact of slower economic activity resulting from higher interest rates. There will be updated examinations of race-based disparities in access to capital in comparison with the data from the period around 2020's COVID shutdowns. There will be scrutiny of predatory lending. And there will be debates between those in favor of government intervention and those in favor of allowing an economic cycle to run its course. That is a future we can, and should, simply avoid.

V. Bottlenecks in the Capital Access Landscape for Small Business Today, and Recommended Actions

The remainder of this testimony expands on four messages I have for the Select Committee, and offers 11 corresponding and relevant recommendations for clearing away bottlenecks in the capital access landscape for small businesses.

Message 1: Congress's efforts in support of small business should not only be large bank-centric.

Twenty years of bank consolidation has cut the number of FDIC-chartered banks in the U.S. by more than 40 percent. According to FDIC data, there were 8,315 FDIC-insured banks in 2000¹⁰, compared to 4,839 at year-end 2021¹¹, with just 49 new FDIC-insured bank charters issued from 2011 until year-end 2021¹². According to December 2021 report by the St. Louis Federal Reserve Bank, "The long-term decline in the number of commercial banks shows no signs of ending," and "the rate of new-bank chartering also has declined to insignificance."¹³

As a result of consolidation in the banking industry and minimal new-bank chartering activity, the average asset size of U.S. banks grew by more than 650% between 2000 and 2021, from \$751 million¹⁴ to \$4.9 billion¹⁵. In general, the larger a bank, the higher its thresholds for what

¹⁰ [FDIC BankFind Suite: Find Annual Historical Data Bank](#)

¹¹ "FDIC Statistics at a Glance as of December 31, 2021." <https://www.fdic.gov/analysis/quarterly-banking-profile/statistics-at-a-glance/2021dec/industry.pdf>

¹² [FDIC BankFind Suite: Find Annual Historical Data Bank](#)

¹³ "Slow, Steady Decline in Number of U.S. Banks Continues," William R. Emmons for the Federal Reserve Bank of St. Louis, December 9, 2021. <https://www.stlouisfed.org/on-the-economy/2021/december/steady-decline-number-us-banks>

¹⁴ [FDIC BankFind Suite: Find Annual Historical Data Bank](#)

¹⁵ "FDIC Statistics at a Glance as of December 31, 2021." <https://www.fdic.gov/analysis/quarterly-banking-profile/statistics-at-a-glance/2021dec/industry.pdf>



constitutes operationally efficient and economically worthwhile relationships and transactions. Ever-larger banks have quietly yet steadily raised their minimum business loan amounts. I believe the definition of “underserved small business borrower” should be expanded to include a loan size threshold, and that loan size has become a larger and more significant barrier to capital access for small businesses than all other traditional criteria combined.

Congressional efforts to encourage new bank chartering activity are worthy, but not sufficient. Such efforts will take years to bear fruit, and meanwhile there are ten million fledgling small businesses in the here and now that cannot wait for the twenty-year trend in the banking landscape to reverse.

Message 2: Congress should focus on specific actions to clear away bottlenecks preventing the nation’s more than 1,200 CDFIs, which have demonstrated they are masters in the craft of reaching and working with small businesses, from making greater use of powerful tools Congress already has created.

Bottleneck #1: Regulations prevent federally guaranteed small business loan programs, like the Small Business Administration (SBA) and the State Small Business Credit Initiative (SSBCI), from reaching their full potential and making the much more significant impact they’re capable of making.

Recommendation: The guarantees provided by SBA loans and by the newly re-established SSBCI are a powerful feature that cry out to be paired with low-cost sources of funds. The Federal Home Loan Bank is a source of very low-cost capital, and it already funds small business loans made by banks. However, Federal Home Loan Banks do not currently allow CDFIs to pledge small business loans as collateral, even if they are substantially guaranteed by programs such as SBA and SSBCI. The opportunity cost for CDFIs resulting from this capital inefficiency is enormous, because when capital is used to fund loans backed by guarantees, the capital can be multiplied and recycled on a more than 5-to-1 basis – meaning \$1 million of capital can support about \$5 million in guaranteed loans – and that ratio grows far higher when assuming loan repayment.

It is clear restrictions like the FHLBs’ not only represent an enormous lost opportunity for CDFIs to gain access to low-cost capital, but also amount to a significant underutilization of the power of the SBA, SSBCI and similar programs offering guarantees. This gap is ripe for Congress to close.

Bottleneck #2: Even though the FHLB does not experience defaults from member institutions, it assigns CDFIs a lower credit score than banks, which increases CDFIs’ collateral requirements when borrowing from the FHLB and reduces their advance

rates, as compared with banks. In other words, the FHLBs' policies for CDFIs prevents CDFIs from maximizing the impact that their capital can deliver.

Recommendation: Require the FHLBs to assign CDFIs the same credit rating as banks, and/or create a loan credit enhancement fund that can be drawn down to provide the incremental collateral associated with CDFI borrowing.

Bottleneck #3: High minimum borrowing thresholds for the CDFI Bond Guarantee program are out of step with the CDFI landscape. The median asset size in 2020 for all categories of CDFIs was \$28.2 million, while the median asset size for only those CDFIs designated as Loan Funds – which account for more than half of all CDFIs - was just \$9.5 million.¹⁶ The effect is to severely limit the number of CDFIs that can take advantage of the CDFI Bond Guarantee program, which in turn limits the availability of capital for the communities that CDFIs serve.

Recommendation: By lowering the minimum CDFI Bond Guarantee from \$100 million to \$25 million, smaller CDFIs will gain greater access to capital.

Bottleneck #4: The anachronistic state-by-state licensing requirement for CDFIs not only limits how quickly capital can be distributed but also how effective the CDFI designation can be as a force for displacing predatory lenders with responsible lenders.

Recommendation: CDFIs should be exempted from state-by-state licensing requirements, thereby bringing about three clear benefits: i) CDFIs can move much faster to deploy capital where it's needed, ii) CDFIs can more easily attain the risk management benefits of geographic diversification, and iii) many more lenders would be motivated to attain CDFI designation, which would have the effect of significantly increasing the supply of capital provided on responsible terms and, through market forces, make predatory lending businesses less economically viable.

Bottleneck #5: No contingency has been made to ensure that the next time there is an acute crisis facing small businesses, CDFIs will have rapid access to capital to support the disproportionately minority-owned small businesses that do not have traditional banking relationships.

Recommendation: In order to respond with agility in the next crisis for small businesses, and especially for those that are underserved by traditional banks, CDFIs must have direct access to the Federal Reserve discount window, rather than be mainly dependent

¹⁶ Community Development Financial Institutions Fund, 2020 Annual Certification Report, October 6, 2021, p. 33. https://www.cdfifund.gov/sites/cdfi/files/2021-10/ACR_Public_Report_Final_10062021_508Compliant_v2.pdf

on other banks for capital. A further advantage of establishing Fed access for CDFIs would be that banks seeking to gain CRA credit would be incentivized to provide additional value to CDFIs beyond solely capital, while allowing for flexibility and creativity in bank-CDFI relationships (e.g., one CDFI might want a partnership for customer acquisition to help keep costs down, another may want access to a technology, etc.).

Bottleneck #6: Even outside periods of crisis, one of the primary methods for CDFIs to obtain capital with which to finance their lending – i.e., by borrowing from banks – is chronically inefficient and ineffective.

Recommendation: Meaningfully enhance the incentives for banks to provide capital to CDFIs, by a) providing banks with triple CRA credit for each dollar of capital they provide to CDFIs, b) providing certainty to banks that they will receive the enhanced CRA credit (i.e., by changing the relevant provision from stating banks “may receive” to stating that they “will receive” such credit, and c) providing banks with additional Tier 1 capital credit in return for supplying CDFIs with capital.

Message 3: Congress can also make a significant positive impact by establishing mechanisms for accountability and coordination.

Bottleneck #7: Though public programs geared to Socially and Economically Disadvantaged Individuals (SEDIs) exist for the purposes of deploying allocated capital to institutions, both to support lending activities and to support technical assistance for borrowers, there does not currently exist a system for measuring and reporting on the effectiveness of the administration such programs in relation to their missions.

Recommendation: Require development and implementation of a reporting system for measuring the performance and annual progress of public agencies and entities responsible for administering capital deployment programs that are geared to SEDIs, covering allocations for both lending and technical assistance (e.g., financing for licensing and certifications, financial empowerment tools, HR services, cybersecurity, marketing, mobile-readiness).

Bottleneck #8: There is not a single federal point of coordination for minority lending institutions to maximize their impact.

Recommendation: Congress has taken multiple actions to support the CDFI and MDI ecosystem. It would be transformational for there to be a dedicated office focused on supporting the growth of MLIs; helping with both policy and regulatory matters for current and new MLIs; and collaborations between MLIs and technology partners.



Message 4: Congress should support the SBA in ensuring that it both evolves with the needs of small businesses and leverages lessons taught through the crucible of the PPP experience.

Bottleneck #9: SBA loans of less than \$150,000 have been in steady decline for the past five years. The loan size range invites comparisons with PPP, which reveals that non-PPP SBA loans of that size have complex rules, do not take advantage of technology, and have insufficient numbers of originators.

Recommendation: As with later evolutions of PPP, simplify rules, make greater use of technology and add more originators.

Bottleneck #10: Loan size maximums for SBA 504 and 7(a) loans have remained fixed while banks' effective minimum business loan size has continued to grow with their inflating asset size, leaving more small businesses in limbo between the SBA and banks. This problem is likely to become more pronounced when opportunities created from the Infrastructure bill become available.

Recommendation: Increase the maximum loan amounts for both the 504 and 7(a) programs.

Bottleneck #11: SBA's Community Advantage program's prolonged status as a pilot program – even though it has an 11-year track record and is the only SBA loan program with at least 10% participation by minority-owned small businesses – reduces the number of lenders willing to make a commitment to the program. In addition, its stagnant loan size maximum of \$250,000 leaves a widening gap to banks' ever-rising minimum business loan amounts.

Recommendation: Make Community Advantage permanent, increase the program's loan maximum to \$350,000 and increase amounts covered by SBA guarantees.

VI. Conclusion

Congress has allocated significant capital to be available to CDFIs and MDIs to help address the capital availability disparity for underserved communities. Through further focused action, Congress can act to ensure allocated capital reaches its intended end-users more quickly, with a larger multiplier effect, and through more distribution points. We believe that our proposed solutions are common-sense ways to address real-world challenges, and hope that they garner bipartisan support. We look forward to working with you and members of Congress on both sides of the aisle on these critical challenges in the weeks and months ahead.