Testimony for the Record On Behalf of

California Association for Micro Enterprise Opportunity (CAMEO)

House Committee on Small Business

"Unleashing Main Street's Potential: Examining Avenues to Capital Access"

January 18, 2024

The California Association for Micro Enterprise Opportunity (CAMEO) submits the following article for the record by CAMEO CEO Carolina Martinez for Fortune.com. The article addresses the Consumer Financial Protection Bureau's (CFPB) rule to implement Section 1071 of the Dodd Frank Act, which requires financial institutions to collect and report demographic data in small business lending.

CAMEO believes that Section 1071 of the Dodd-Frank Act will provide much-needed insight into who does and who does not receive small business financing, unearthing potential patterns of discrimination. Implementing Section 1071 is critical to increasing transparency and equity in the small business lending economy. Minority and women-owned small businesses often face discrimination when applying for loans, hindering the development of these businesses and their communities. Section 1071 will provide publicly accessible data that is crucial in creating an inclusive and accountable lending environment.

CAMEO is California's statewide micro-business network made up of over 400 organizations, agencies, and individuals dedicated to furthering micro-business development in California with small and micro-business financing such as loans and credit, technical assistance and business management training. We build capacity and expand resources for our members. We also educate the public on the economic impacts of micro-business through public awareness and advocacy at the local, state and federal level to support the growth of micro-business, start-ups, and entrepreneurs.

# America’s big banks are hiding behind racial equity to avoid new capital standards–but refuse to disclose the demographics of their small business lending

BY **CAROLINA MARTINEZ**
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As regulators contemplate tougher capital standards for large banks (intended to prevent future banking collapses and make the financial system safer), the banking lobby is crying foul. One of their key arguments is that the new capital standards could hurt minority-owned businesses. A well-funded ad campaign from Goldman Sachs argues the new capital standards would “make it even harder for minority-owned businesses to access loans and credit.” Meanwhile, the Financial Services Forum says the proposal would “disproportionately impact historically underserved communities.”

However, capital standards are far from being the main cause of–or solution to–discrimination in small business lending. In fact, by wrapping their arguments under a cloak of racial equity, the banking lobby is preserving the status quo and letting underserved communities disproportionately bear the impact of a tightening lending market, rather than addressing the ingrained inequities in banking.

If banks are concerned about equity in small business lending, they should support the implementation of the Consumer Financial Protection Bureau’s (CFPB) rule requiring financial institutions to collect and report demographic data in small business lending. Currently, banks do not measure race, gender, or other key demographics in small lending, unlike in consumer lending. The CFPB rule, which was finalized under Section 1071 of the Dodd-Frank Act, would provide much-needed insight into who does–and doesn’t–receive small business financing, unearthing potential patterns of discrimination.

The banking lobby has fought this straightforward, long-overdue rule to measure inequities in small business lending. When the data-collection rule was finalized earlier this year after 13 years of delay, the American Bankers Association and the Texas Bankers Association met it with aggressive legal challenges. This summer, they secured a ruling from a U.S. District Court that postponed its implementation.

Additionally, in its pursuit of evading the data-collection rule, the banking lobby has thrown its weight behind a legal argument that the CFPB itself is unconstitutional–offering an amicus brief to the U.S. Supreme Court in favor of defunding the CFPB. If the Supreme Court upholds an October 2022 ruling by the U.S. 5th Circuit Court of Appeals that the CFPB's funding structure is invalid, it would fully dismantle the agency's enforcement mechanisms in a threat to small businesses and consumers alike.

In the CFBP's absence, predatory and discriminatory lending practices, such as payday lending and redlining, would thrive with no recourse for the victims.

Even though many banks refuse to collect or report demographic data on their small business loans, the presence of inequity in small business lending is well-documented. For instance, Goldman Sachs itself reports that Black small business owners have a "much lower rate of receiving the full funding requested compared to their white peers." A survey from Stanford found Latino-owned businesses seeking loans from national banks have lower approval rates for loans over $50,000, despite having stronger business metrics than white-owned businesses that applied for loans.

To address their own shortcomings, banks *must* measure them. By opposing demographic-reporting requirements in small business lending, one must wonder: What do banks want to hide? What patterns of discrimination might be unearthed?

Substantial movement toward equity in banking requires transparency. Until then, arguments from the banking lobby that they care about minority-owned businesses and equity in small business lending are empty words. If they truly care about equity, and not only when it's convenient, banks' actions need to show us they're willing to eliminate the inequities in the system.

*Carolina Martinez is the CEO of CAMEO, California's statewide micro-business network, and a leading voice for businesses with one to five employees.*