

July 6, 2020

Memorandum

To: Members, Committee on Financial Services

From: FSC Majority Staff

Subject: July 9, 2020, “Access Denied: Challenges for Women- and Minority-Owned Businesses Accessing Capital and Financial Services.”

The Subcommittee on Diversity and Inclusion will hold a hearing entitled, “Access Denied: Challenges for Women- and Minority-Owned Businesses Accessing Capital and Financial Services,” at 12:00 p.m. on Thursday, July 9, 2020 on the virtual meeting platform Cisco WebEx. The witnesses for this single-panel hearing include:

- **Carmen Castillo**, Chairwoman of the Board of Directors, U.S. Hispanic Chamber of Commerce
- **Ron Busby Sr.**, President and CEO of the U.S. Black Chambers, Inc.
- **Jenell Ross**, President, Bob Ross Auto Group
- **Karen Kerrigan**, President and CEO, SBE Council

Purpose

At this hearing, witnesses will discuss the unique challenges and inequities minority- and women-owned business enterprises (MWBEs) have historically faced when accessing capital, with a particular emphasis on how those challenges are exacerbated during the COVID-19 pandemic. This hearing will also consider legislative proposals to ameliorate those challenges.

Background

According to the United States Census Bureau’s Annual Business Survey, women and minorities own approximately 1.1 million and 1 million businesses, respectively.¹ These minority- and women-owned business enterprises (MWBEs) employ approximately 8.7 million workers and generate more than \$1 trillion in economic output annually.² MWBEs also face unique and disparate barriers to market entry, including but not limited to, limited access to capital and persistent discrimination when compared to majority-owned firms.³ For example, 2020 Brookings Institution analysis showed that “highly-rated businesses in Black-majority neighborhoods earn less revenue than businesses with similar ratings outside

¹U.S. Census Bureau, “Annual Business Survey Release Provides Data on Minority- and Women-Owned Businesses.” News release, May 19, 2020. U.S. Census Bureau. <https://www.census.gov/newsroom/press-releases/2020/annual-business-survey-data.html>.

² Dua, Andre et. al. *COVID-19’s effect on minority-owned small businesses in the United States*. McKinsey & Company, May 27, 2020. <https://www.mckinsey.com/industries/social-sector/our-insights/covid-19s-effect-on-minority-owned-small-businesses-in-the-united-states>.

³Barr, Michael S. *Minority and Women Entrepreneurs: Building Capital, Networks, and Skills*. Hamilton Project, March 2015 https://www.brookings.edu/wp-content/uploads/2016/07/minority_women_entrepreneurs_building_skills_barr.pdf.

of Black neighborhoods, translating to a national annual revenue loss as high as \$3.9 billion.”⁴ These challenges are often exacerbated during periods of market disruption, such as the 2008 Great Recession and the current COVID-19 pandemic.

Impacts of COVID-19 on the Women- and Minority-Owned Business Community

According to the Centers for Disease Control, “long-standing systemic health and social inequities have put some members of racial and ethnic minority groups at increased risk of getting COVID-19 or experiencing severe illness.”⁵ Due in part to these longstanding inequities, rates of hospitalizations and death for African Americans and Latinos as a result of COVID-19 are five and four times higher, respectively, than similar rates for Whites in the United States.⁶

Data shows that minorities and MWBEs are also facing more difficult economic circumstances than others as a result of the COVID-19 pandemic. In April 2020, the Federal Reserve Bank of New York reported that MWBEs were not only more likely to show signs of limited financial health, but also twice as likely to be classified as “at risk” or “distressed” than their non-minority counterparts.⁷ Further, nearly 60% of “at risk” and “distressed” business owners leveraged personal funds to respond to a two-month revenue loss because of the COVID-19 pandemic.⁸ As a result of disproportionately lower wages and wealth inequalities, women and minorities also have fewer liquid assets (those that can be quickly turned into cash) for emergencies and less disposable income for savings and investments than white households. In 2017, Prosperity Now and the Institute for Policy Studies reported that 51 percent of households of color have fewer liquid assets compared to 28 percent of white households.⁹ Women, especially Black women and Latinas, are more likely to face poverty than men, according to a September 2018 article by the America Association of Retired Persons (AARP).¹⁰

The pandemic has also led a number of MWBEs to close permanently. According to a February 2020 study by the National Bureau of Economic Research, the drop in minority business owners was the largest on record, with 41% of Black owned businesses experiencing a 41 percent drop, while Latinx- and Asian-owned businesses falling by 32 percent and 26 percent, respectively, from February to April 2020.¹¹ Women-owned businesses have faced similar pandemic challenges. According to a recent survey of Black and Latinx women business owners, 70% reported that COVID-19 has caused a decrease or loss of revenue, and 90% reported that they are currently unable to pay themselves a sustainable income.”¹²

Systemic Racism and Biases Against MWBE’s

Systemic racism and biases against MWBEs continue to impede their ability to access capital and bank funding, and to compete on a level playing field in the marketplace. In his June 16, 2020 testimony before

⁴ Brookings Institute. “Highly rated businesses in Black-majority neighborhoods experience annual losses in business revenue as high as \$3.9 billion, new report from Brookings and Gallup finds.” News release, February 18, 2020.

https://www.brookings.edu/wp-content/uploads/2020/02/DevaluationBizBlackCommunities_PressRelease.pdf

⁵ Centers for Disease Control and Prevention. “COVID-19 in Racial and Ethnic Minority Groups.” News release, June 25, 2020.

⁶ Ibid.

⁷ Federal Reserve Bank of New York, “Can Small Firms Weather the Economic Effects of COVID-19?” April 2020.

⁸ Ibid.

⁹ Emanuel Nieves. *The Road to Zero Wealth: How the Racial Wealth Divide is Hollowing Out America’s Middle Class*. Prosperity Now and the Institute for Policy Studies, September 2017. https://prosperitynow.org/sites/default/files/PDFs/road_to_zero_wealth.pdf.

¹⁰ Ryan, Elaine, “Women’s retirement at risk,” American Association of Retired Persons, September 25, 2018.

¹¹ Fairlie, Robert W. *The Impact of Covid-19 on Small Business Owners: Evidence of Early-Stage Losses from the April 2020 Current Population Survey*. National Bureau of Economic Research, June 2020. <https://www.nber.org/papers/w27309>
<https://www.nber.org/papers/w27309>.

¹² Derbigny, Dominique. *On the Margins: Economic Security for Women of Color through the Coronavirus Crisis and Beyond*. Closing the Women’s Wealth Gap, April 2020. https://womenswealthgap.org/wp-content/uploads/2020/04/OnTheMargins_April2020_CWWG.pdf.

the Senate Banking Committee, Board of Governors of the Federal Reserve System (Federal Reserve or Fed) Chairman Jay Powell similarly acknowledged that “structural discrimination exists in the United States economy and impedes the economic success of communities of color, and is a key to understanding why black wealth is one tenth of that of white communities.”¹³ The Federal Reserve’s 2017 congressional report on availability of credit for small businesses showed that in almost every financing category—loans, credit cards, outside investors and grants—women and minorities, especially African Americans and Latinos, experienced the highest denial rates and were the least likely to receive full funding.¹⁴

The racial and gender wealth gap in America further increases MWBEs limited access to capital sources. A September 2019 Committee hearing discussed the plight of women and minorities to build and retain wealth compared to their white male counterparts.¹⁵ The hearing considered data that shows how lower incomes, lower homeownership rates, as well as fewer savings and liquid assets for women and minorities have contributed to widening the wealth gap.¹⁶ As a result, would-be women and minority entrepreneurs have less ability to tap into existing wealth to start and maintain their businesses. Because women and minority entrepreneurs are more likely to tap into their home equity as startup capital, low homeownership rates among women and minorities suggests MWBE formation face additional business hurdles.¹⁷

Diverse asset management firms face similar discrimination. In a June 2019 hearing on diverse asset managers, witnesses testified that despite evidence that minority- and women-owned firms perform as well as, and sometimes outperform, their industry counterparts, they are not consistently selected to manage institutional assets because of: 1) unconscious bias against those firms and 2) a lack of intentionality by institutional investors to identify and assign management opportunities to qualified diverse asset management firms.¹⁸

Despite their potential for success, private sources of equity and venture capital funding have also overlooked MWBEs. A recent white paper sponsored by the National Association of Investment Companies notes that despite data showing a 38% growth in diverse-owned firms from 2007-2016, traditional funding sources, such as banks and venture capital firms, predominately invest in white, male owned businesses.¹⁹ NAIC further concludes that:

“With limited access to capital, diverse entrepreneurs face greater challenges in scaling their businesses or entering industries with higher growth prospects that require more start-up capital. Understanding that non-diverse businesses that do not face these obstacles generate five times more in gross revenues, it is easy to surmise that if diverse businesses had the same access to capital, they would drive substantial economic growth in the United States.”²⁰

¹³ U.S. Congress. Senate Committee on Banking, Housing, and Urban Affairs. Hearing on The Semiannual Monetary Policy Report to the Congress, 116th Cong., 2nd sess., 2020. <https://www.banking.senate.gov/hearings/06/08/2020/the-semiannual-monetary-policy-report-to-the-congress>.

¹⁴ Board of Governors of the Federal Reserve System. Report to the Congress on the Availability of Credit to Small Businesses. September 2017. <https://www.federalreserve.gov/publications/2017-september-availability-of-credit-to-small-businesses.htm>.

¹⁵ US Congress. House. Committee on Financial Services, Subcommittee on Diversity and Inclusion. Hearing on “Examining the Racial and Gender Wealth Gap in America.” September 24, 2019. U.S. Congress. 116th Cong., 1st session, <https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=404344>.

¹⁶ Ibid.

¹⁷ Whetzel, Benjamin. “Home Equity Used to Start Seven Percent of U.S. Businesses.” National Association of Homebuilders: Eye on Housing, August 9, 2017.

¹⁸ U.S. Congress. House. Committee on Financial Services, Subcommittee on Diversity and Inclusion. Hearing on “[Diverse Asset Managers: Challenges, Solutions and Opportunities for Inclusion](#).” 116th Cong., 1st sess. June 25, 2019.

¹⁹ Manson, Jr., Lawrence C. *Access to Capital: Accelerating the Growth of Diverse and Women-Owned Businesses*. National Association of Investment Companies, 2020.

²⁰ Ibid.

MWBEs and the Paycheck Protection Program

The Coronavirus Aid, Relief, and Economic Security (CARES) Act established the \$349 billion Paycheck Protection Program (PPP), which is administered by the Small Business Administration (SBA) in coordination with the Treasury Department. The PPP provides forgivable loans to small businesses and certain non-profit organizations through financial institutions, including banks and credit unions. Congress subsequently passed the Paycheck Protection Program and Health Care Enhancement Act (Enhancement Act) to provide an additional \$310 billion to the PPP. As concerns were raised about how MWBEs were unable to get PPP loans,²¹ the Enhancement Act set aside \$60 billion for Community Development Financial Institutions (CDFIs), minority depository institutions (MDIs), and other community lenders to provide loans to MWBEs and other small businesses. SBA and Treasury subsequently announced a further \$10 billion set aside solely for CDFIs to lend out.²² SBA's Inspector General urged the agency to, among other things, request demographic data in the PPP application and loan forgiveness forms, the latter of which has been adopted.²³ While Treasury and SBA announced some transparency measures that will include large recipients of PPP and some demographic information, there remain concerns.²⁴

MWBEs Use of Federal Reserve Facilities

The Federal Reserve used its authorities under Section 13(3) of the Federal Reserve Act to establish emergency lending facilities in response to the pandemic, many of which are backstopped by CARES Act funds appropriated to the Treasury.²⁵ Some of these programs are available to MWBEs and MDIs, as appropriate. For example, the Main Street Lending Program (MSLP) is designed to support lending to small and medium-sized businesses. MSLP loans have a minimum loan balance of \$250,000, five-year term, and a two-year deferment of principal payments. The PPP Liquidity Facility (PPPLF) was established to provide cash to lenders that pledge PPP loans as collateral, charging 0.35% for this service. All PPP lenders approved by the Small Business Administration, including all CDFIs and non-depository institution lenders, are eligible to participate in the PPPLF. The Fed announced a policy in April to not redact loan level information when publishing reports for their facilities supported with CARES Act funds, which can provide transparency on the demographics of businesses and lenders using these programs.²⁶

Minority Business Development Agency (MBDA)

In 1969, MBDA was created via executive order as an agency within the Department of Commerce. MBDA was charged to focus on the unique needs of minority-owned businesses, including the facilitation of financing, grants and technical services. Because MBDA's establishment is not codified, its continued existence is dependent upon each new presidential administration. In each of his budget proposals, President Trump proposed significant funding cuts or complete elimination of MBDA. With funding from the CARES Act, MBDA provided grants to chambers of commerce advocating for minority-owned businesses, including the U.S. Hispanic Chamber of Commerce and the U.S. Black Chamber of Commerce, to provide technical and other assistance to their members for pandemic recovery.

²¹ For example, see Center for Responsible Lending, "[The Paycheck Protection Program Continues to be Disadvantageous to Smaller Businesses, Especially Businesses Owned by People of Color and the Self-Employed](#)," (Apr. 6, 2020).

²² Committee press release, "[Waters Statement on Treasury and SBA Setting Aside \\$10 Billion for CDFIs for Paycheck Protection Program](#)," (May 29, 2020).

²³ See SBA OIG, "[Flash Report Small Business Administration's Implementation of the Paycheck Protection Program Requirements](#)," (May 8, 2020), and page 5 of [PPP Loan Forgiveness Form](#) (accessed July 4, 2020).

²⁴ See Treasury, "[SBA and Treasury Announce Enhanced Transparency Regarding the Paycheck Protection Program](#)," (Jun. 19, 2020), and Press Release, "[Waters, Neal, and Velázquez Reiterate Demand for Full PPP Transparency](#)," (Jun. 22, 2020).

²⁵ See the Committee staff memoranda for hearings entitled, "[Monetary Policy and the State of the Economy](#)," (Jun. 17, 2020), and "[Oversight of the Treasury Department's and Federal Reserve's Pandemic Response](#)," (Jun. 30, 2020).

²⁶ Fed, "[Federal Reserve Board outlines the extensive and timely public information it will make available regarding its programs to support the flow of credit to households and businesses and thereby foster economic recovery](#)," (Apr. 23, 2020).

State Small Business Credit Initiative (SSBCI)

In response to the global financial crisis and Great Recession, Congress established the State Small Business Credit Initiative (SSBCI) in 2010 to provide \$1.5 billion in funding for state and territory programs that support access to credit for small businesses.²⁷ This temporary program, which was administered by the Treasury Department and expired in 2017, provided awards to 47 states, 5 territories, D.C., and municipalities in 3 states that funded new or existing small business programs based on unemployment in their respective jurisdictions. When applying for SSBCI funds, jurisdictions were required to include a report explaining how it would use the funds to “provide access to capital for small businesses in low- and moderate-income, minority, and other underserved communities, including women- and minority-owned small businesses.” Ultimately, the SSBCI funds were leveraged to provide over \$8 billion in loans and investments in small businesses.²⁸

Legislative Proposals

This hearing will consider the following legislation:

- **H.R. 6403, New Business Preservation Act** (Phillips): This bill authorizes the Treasury Department to partner with states to make equity investments in new businesses alongside private venture capital companies, with special consideration given to minority- and woman-owned companies;
- **H.R. _____, Emergency Lending Diversity Act**: This bill would require the Board of Governors of the Federal Reserve System to establish goals for the use of diverse investment advisers, brokers, and dealers in investment management agreements related to the Board of Governor’s emergency lending facilities and report on those goals;
- **H.R. _____, Minority Business Development Administration Act**: This bill would permanently codify the Minority Business Development Administration (MBDA) as an independent federal agency;
- **H.R. _____, Minority Business Emergency Grants Act** (Garcia, TX): This bill would provide \$3 billion in grants directly to minority business enterprises through the Minority Business Development Administration;
- **H.R. _____, State Small Business Credit Initiative Renewal Act** (McAdams): This bill provides \$10 billion through a reauthorized State Small Business Credit Initiative (SSBCI) to support \$100 billion in small business financing through state and territory programs. These programs must include a plan to support access to credit to minority- and women-owned small businesses; and
- **H.R. _____, Diverse Investment Advisers Act** (Beatty): This bill would require SEC-registered companies to consider at least one "diverse" asset manager when seeking new asset management services and detail the extent to which they use diverse asset managers.

²⁷ Treasury Department, “[State Small Business Credit Initiative \(SSBCI\)](#),” last accessed Jul. 6, 2020.

²⁸ Ibid.