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TESTIMONY OF EVERETT K. SANDS TO THE
HOUSE FINANCIAL SERVICES COMMITTEE'S
SUBCOMMITTEE ON
NATIONAL SECURITY, INTERNATIONAL DEVELOPMENT, AND MONETARY POLICY

Supporting Small and Minority-Owned Businesses Through the Pandemic

February 4, 2020

Committee Chairwoman Waters, Ranking Member McHenry, Subcommittee Chair Himes, Subcommittee Ranking Member Hill and Vice Ranking Member Taylor, and distinguished members of the Subcommittee, thank you for your interest in my perspectives and insights on today's topic, Supporting Small and Minority-Owned Businesses Through the Pandemic, and for inviting me to testify before you today. I also wish to extend my wishes for a full and rapid recovery to Congressman Lynch, who was very generous in providing me the opportunity to testify before his Task Force last fall, as well as to any of his family members, colleagues or staff who may be affected.

My name is Everett K. Sands, and I have more than 20 years of experience in lending. For the past five years, as founder and CEO of Lendistry, my focus has been on responsible lending to underserved small businesses, and particularly those owned by minorities, women, veterans, and people in rural areas. By the one-year anniversary of the onset of COVID-19 lockdowns and their related impacts, Lendistry will have been the primary point of contact in connecting tens of thousands of affected small businesses -overwhelmingly minority-owned - with nearly $1 billion in loans or grants.

I commend this Subcommittee, and other House and Senate subcommittees and committees with which it is working, for moving so rapidly in recent weeks to focus on reauthorizing the State Small Business Credit Initiative (SSBCI). I will focus a significant portion of my testimony on the SSBCI and recommendations I respectfully urge the Subcommittee to consider as it develops potential authorizing legislation.

To preview and summarize my main points regarding the SSBCI specifically:

1) The funding level for the SSBCI should be at least $10 billion;
2) The portion of the authorized funds for the SSBCI that will be dedicated to minority-owned businesses should be 60%;
3) At least 5% of authorized funds for the SSBCI should be dedicated to enhancing and providing technical assistance to prospective applicants, particularly in the areas of i) recovery planning, ii) generating financial statements, iii) upgrading technological skills to take advantage of commonly-available and increasingly necessary business software tools and applications and iv) understanding credit;
4) The legislation should grant automatic authorization to offer SSBCI-supported loans nationwide to the following categories of federally-certified institutions so that such institutions are exempted from any state-by-state approval process: Community Development Financial Institutions (CDFIs) and Small Business Administration-approved Community Development Corporations (CDCs) and Business Development Corporations (BDCs);
5) With regard to program design, each program supported by the SSBCI should provide for loans to minority-owned businesses to qualify for 10% additional guaranteed coverage; and
6) The legislation and rules should create mechanisms to rescind funds from states that fail to deploy their allocated capital expeditiously and redeploy rescinded funds to states that effectively utilize program funds.

I. Introduction

I have more than 20 years of experience in the banking and lending fields. Prior to starting Lendistry, I worked in both national and community banking. 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 manager 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 $4 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.

Lendistry is a minority-owned and fintech CDFI and 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.

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. (The dual trends of dwindling numbers of community banks and larger banks withdrawing from the smaller end of the small business market due to operational efficiency considerations has continued and become so pronounced that I believe the definition of "underserved small business borrower" should be expanded to include a loan size threshold, and loan size has become a larger and more significant barrier to capital access for small businesses than all other traditional criteria combined.) 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.

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 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 ranks second nationwide in SBA Community Advantage lending, 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 it is the only category of SBA loan in which Black and Latinx borrowers, combined, account for more than 10% of annual loan volume. More than 73% of Lendistry's outstanding principal loan balance is with minority and women-owned borrowers, and 92% of Lendistry's outstanding principal loan balance is with low- or moderate-income borrowers.

Lendistry also has a highly nuanced understanding of small business ecosystems. In the fourth quarter of 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.

Ecosystems and partnerships are fundamental to Lendistry's operating method and philosophy. Lendistry has partnerships in place with more than 50 organizations, including business associations, chambers of commerce, Community Development Financial Institutions, and mission-based organizations. These partners in turn have extensive networks, enabling Lendistry to reach underserved geographies, 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 serve a much larger geographic footprint and broader market than we do today and fill the lending gaps left by mainstream finance for the benefit of small businesses, and particularly those owned by minorities, women, veterans and those in rural areas.

II. Lendistry and COVID-19 Small Business Recovery Effort

In response to the COVID-19 crisis, Lendistry has stepped up to provide desperately needed capital to small businesses struggling amid the pandemic, both as a lender and as an administrator of state and local grant programs, including those made possible by the Coronavirus Relief Fund under the CARES Act and state funding sources. By the one-year anniversary of the onset of COVID-19 lockdowns and their related impacts, Lendistry will have been the primary point of contact in connecting tens of thousands of affected small businesses - overwhelmingly minority-owned - with nearly $1 billion in loans or grants.

The urgent need among small businesses - particularly very small businesses and those owned by historically disadvantaged people, which data show have minimal reserve resources to withstand a prolonged downturn - has been a challenge that we at Lendistry believed from the beginning of the pandemic we were built to take on. The business owners we are mission-bound to serve have been suffering a crisis of financial liquidity, and we knew we possessed the relationships to connect with them, the technology to serve them, the experience to meet them where they are, and the technical assistance to help guide them.

What we never had before, however, were two critical ingredients: access to a very large amount of capital to deploy, and access to geographic territories outside of California. Once Lendistry was selected by Goldman Sachs' *10,000 Small Businesses Initiative* to have access to $175 million in capital to deploy for SBA Paycheck Protection Plan loans and was granted authorization by the SBA to expand our footprint to 12 states with large populations, diverse populations, and significant rural areas - the true power of our platform and our organization was unleashed.

During the four-month span of our PPP offering in 2020, Lendistry originated, processed and approved more than $180 million in PPP loans to more than 3,500 small businesses.

The major learnings of PPP for Lendistry, and we believe for policymakers, is that lack of access to capital and territory were significant limiting factors to the impact that Lendistry had been able to make prior to PPP – despite the fact that

Lendisty is a CDFI, a CDE and a member of the Federal Home Loan Bank of San Francisco. We believe these takeaways also apply to many if not all CDFIs generally.

This point bears emphasis as an area for public policy to address: two significant barriers to CDFIs' ability to have greater impact in our mission are 1) the fact that CDFIs must depend on larger financial institutions for capital, rather than having direct access to Fed facilities, even though CDFIs are certified by the Treasury Department, and 2) the fact that CDFIs – again, despite being federally-certified – must obtain separate approvals from the SBA for each state they wish to serve.

Lendistry's contribution to the small business recovery effort amid the COVID-19 pandemic has not been limited to PPP, however. By the one-year anniversary of the pandemic-related shutdowns, Lendistry will have administered $780 million in small business coronavirus relief grants funded by federal CARES Act funds and state resources. This aggregate amount includes $280 million in CARES Act funds to more than 17,000 small businesses across all 67 counties of the Commonwealth of Pennsylvania, through the statewide PA CARES program and eight separate county-sponsored programs, all of which were completed in the fourth quarter of 2020; and $500 million to California small businesses through a state-funded program that launched in late December and is expected to conclude in March.

Importantly, all ten of the small business coronavirus relief grant programs administered by Lendistry to date have not been first-come, first-served. Rather, one of Lendistry's significant responsibilities has been to design systems to efficiently execute grant programs intentionally conceived to prioritize impact.

In Pennsylvania, where more than 62,000 small business owners applied for grants ranging in size from $5,000 to $50,000, 50% of the total grant pool was allocated to business owned by Historically Disadvantaged entrepreneurs, and of these: (i) 81.6% were low-to-moderate income, (ii) 94.7% were in NAICS priority industries, (iii) 67.4% had greater than 75% revenue loss, (iv) 22.8% were located in Revitalization Areas, (v) 15.9% were located in rural communities, and (vi) 62% were women-owned businesses. In California, with more than 300,000 applications completed and processed in the first of two application rounds, small businesses and nonprofits selected (pending a verification step) for grants ranging from $5,000 to $25,000 are: (i) 77% underserved and disadvantaged small businesses; (ii) 51% owned by a minority; (iii) 49% women-owned; (iv)58% LMI; and (v) 14% rural.

Lendistry's active engagement in small business grant administration and PPP loans during the pandemic reflects the many similar capabilities required in such roles as those that are demanded in traditional underserved lending: building an engine to process a high volume of applications according to criteria specified by the state or local authority, providing technical support for applicants, processing the applications, verifying information, complying with applicable federal requirements, reporting on the status, and ultimately funding approved businesses. The difference between the current pandemic environment and the past is the effort being placed on intentional programs to help underserved communities, such as the SSBCI program.

III. The Need for Public Policy to Address, in the Interest of National Economic Expansion as Well as Equity, a Double Imperative for Small and Minority-Owned Businesses: Survival and Recovery, and New Launches and Growth

An important factor that left small businesses extraordinarily vulnerable to the vicious effects of the pandemic is the 20-year contraction in capital access for small businesses, as illustrated by the dramatic reduction in the number of community banks over that time, from 8,315 FDIC-insured banks in 2000 to 4,519 in 2019, with just 32 new FDIC-insured bank charters issued since 2010.[1] As the number of banks has declined, the median asset size of remaining banks has grown by more than 500%, from $751 million in 2000 to $3.9 billion in 2019[2]. In general, the larger a bank, the higher its thresholds for what constitutes operationally efficient and economically worthwhile relationships and transactions. Ever-larger banks have quietly yet steadily raised their minimum business loan amounts. The result is that business size and loan size have become inversely correlated with being underserved by banks, alongside more widely recognized factors such as minority ownership.

The void left behind in the smaller end of the business banking market by vanishing community banks and receding bigger banks has been filled by an explosion of unscrupulous lenders offering high-interest loans funded by private investors. As a result, small businesses, and particularly minority-owned small businesses, entered the pandemic already starved of cash flow and a financial cushion. Their businesses were severely undercapitalized because their choice was no choice at all: either enter into unsustainable lending arrangements that starve their businesses of cash flow, or forgo such loans and remain sub-scale, often as sole proprietors, without a path to growing big enough to be served by traditional banks offering competitive lending terms.

Today, as the pandemic nears the one-year mark, it is vital to recognize the two-fold imperative for small and minority-owned business financing, and the full opportunity that a reauthorized SSBCI must capture. Not only is capital needed for survival and recovery, it also is needed for new business formation and growth. New launches in and following a downturn represent an enormous opportunity for job creation, wealth creation and community revitalization. Fulfilling the double imperative of business survival and recovery and business formation and growth demands an ample capital allocation to the SSBCI program, along with thoughtful program design that applies learnings from the lessons of the past.

The Subcommittee's Hearing Memo cogently framed, presented and supported the dire circumstances for small and particularly minority-owned businesses during the pandemic, as well as many of the inequities that were found to have limited the effectiveness of the public policy response to the effects of the pandemic. Federal Reserve Banks in 2020 also were active in documenting the impacts to small business, and the attendant racial disparities.[3]

Below I bring to the Subcommittee's attention several items of complementary data to that which is included within the Subcommittee's Hearing Memo, to illustrate and support the double imperative stated above. In general, the information and sources that follow provide the Subcommittee with i) more recent data underscoring the urgency of further action to business recovery, and ii) evidence of the importance of acting boldly enough to support business formation and growth, in the interests of both equity and national economic expansion.

1) Recent Additional Evidence of the Stakes and Barriers for Small and Minority-Owned Business Survival and Recovery:

   A. A continuing unemployment crisis is disproportionately impacting Black and Latinx populations, as well as women.

[1] FDIC BankFind Suite: Find Annual Historical Data Bank; also find graphic representations at Statista.com for annual total FDIC-chartered banks and new FDIC-chartered banks
[2] FDIC BankFind Suite: Find Annual Historical Data Bank
[3] See, among others: Can Small Firms Weather the Economic Effects of COVID-19, April 2020; Double Jeopardy: COVID-19's Concentrated Health and Wealth Effects in Black Communities, August 2020; An Uphill Battle: COVID-19's Outsized Toll on Minority-Owned Firms, October 2020

- The overall unemployment rate in December 2020 was 6.7%, but the Black (9.9%) and Hispanic (9.3%) unemployment rates were more than 50% higher than the white (6.0%) unemployment rate.[4]
- Women accounted for all of the net job losses in December 2020.[5]
- January 2021's initial jobless claims rates (all adults) were the highest since August 2020.[6]

B. Small and minority-owned businesses that survived into November are in distress and believe greater access to capital and technical assistance can help.
   - The number of small businesses open as of year-end 2020 compared to January 2020 was 29.7% lower - the lowest point since May 2020.[7]
   - Newly-published research[8] from the nonprofit Small Business Majority of a scientific opinion poll conducted in November 2020 reveals, among other things, that:
     - 18% of Black and 18% of Latino entrepreneurs report they are likely to close their business in the next three months (i.e., February), compared with 14% of white small business owners.
     - 29% of Black and 32% of Latino entrepreneurs report they are likely to close their business temporarily in the next three months, compared with 21% of white business owners.
     - 22% of minority business owners may lay off employees permanently in the next three months, compared with 14% of white business owners.
     - Small business owners ranked accessing capital as the 4th most useful measure to help their businesses survive, with Black and Latino respondents rating it significantly more important than the overall mean for all respondents.
     - 68% of all respondents support significantly expanded technical assistance programs.

C. Public policy in support of minority-owned small business lending is necessary to counteract continuing evidence of racial disparities and bias in small business lending.
   - A study conducted and published in 2020 by the National Community Reinvestment Coalition[9] – part of a series of "matched pair mystery shopping" studies of bias in small business lending conducted by NCRC since 2017 - found racial bias by several Washington, D.C. banks in PPP lending, with white candidates receiving more favorable treatment than similarly-qualified Black candidates in 43% of tests, as evidenced by differences in:
     - levels of encouragement in applying for a loan (including, in 44% of tests that exhibited bias, discouragement of the Black candidate from applying at all, alongside encouragement of the white candidate to apply for more one or more loan products);
     - products offered;
     - information provided by the bank representative.

   The NCRC study's finding significant instances of banks discouraging Black candidates from applying for loans casts light on a two well-documented factors behind disparities in capital access between Black and non-Black business owners: the higher likelihood that Black business

[4] Bureau of Labor Statistics, The Employment Situation – December 2020, January 8, 2021
[5] Bureau of Labor Statistics, Economic News Release, January 8, 2021
[6] Opportunity Insights presentation of BLS data
[7] Opportunity Insights
[8] Small Business Majority, Scientific Opinion Poll, "Small businesses continue to face closures in 2021," January 27, 2021
[9] "Lending Discrimination within the Paycheck Protection Program," A. Ledrer, S. Oros, NCRC, July 15, 2020

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owners lack a banking relationship (which came into conflict with the original design of the PPP initiative[10]) and the higher likelihood that Black business owners will not pursue loans from lenders who offer responsible terms due to fear of rejection. The latter phenomenon was identified as a factor in racial disparities in capital access in a 2010 report published by the Minority Business Development Agency.[11]

- Federal Reserve research shows that Black entrepreneurs are denied or given lower bank loans than requested at more than twice the rate of white entrepreneurs, 53% vs. 25%.[12] Other research finds that people of color pay higher interest rates than white borrowers.[13]
- Academic research has found evidence that racial bias may play at least a partial role in financial capital differences between minority and non-minority entrepreneurs.[14] The 2016 paper, which examined financing patterns among minority and non-minority entrepreneurs at startup and during early years of operation, also found that Black-owned businesses:
    - start with less capital and do not catch up over time; and
    - face more difficulty in raising external capital and invest lower levels of capital into growth and development.

2) Evidence of the Importance of Supporting Small and Minority-Owned Business Formation and Growth:

A. New business formation and growth account for a significant portion of job creation, which historically has been particularly valuable in recovering from economic downturns.

- "Businesses that are less than 5 years old create nearly all of the net new jobs in the American economy," according to a 2019 Kauffman Foundation white paper's15 summary of published 2013 economic research.[16]
- Within the past 15 years, at least two significant economic shocks – one regional, Hurricane Katrina's unprecedented swath of devastation across the Gulf region, and the other global, in the 2008-2009 Great Recession - taught that when employment is disrupted on a wide scale, new job creation by startups lead the economy from recession to growth.[17][18]
- Business ownership represents an opportunity for minority households to close the wealth gap, with research over a sustained period showing that individuals who opted for self-employment experienced a growth in wealth four times larger than those who did not seek self-employment.[19]

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[10] "Double Jeopardy: COVID-19's Concentrated Health and Wealth Effect in Black Communities," Federal Reserve Bank of New York, August 2020

[11] "Disparities in Capital Access between Minority and Non-Minority-Owned Businesses: The Troubling Reality of Capital Limitations Faced by MBEs," R. Fairlie, A. Robb, for U.S. Department of Commerce, Minority Business Development Agency, January 2010

[12] Report to Congress on the Availability of Credit to Small Businesses, Board of Governors of the Federal Reserve System, September 2017

[13] "Black and White: Access to Capital among Minority-Owned Startups," R. Fairlie, A. Robb, D. Robinson, Stanford Institute for Economic Policy Research, December 15, 2016

[14] "Black and White: Access to Capital among Minority-Owned Startups," R. Fairlie, A. Robb, D. Robinson, University of California, Santa Cruz, March 7, 2016

[15] Start US Up: American's New Business Plan, Ewing Marion Kauffman Foundation, October 2019

[16] "Who Creates Jobs? Small Versus Large Versus Young," J. Haltiwanger, R. Jarmin, J. Miranda, The Review of Economics and Statistics, May 2013

[17] "Employment and self-employment in the wake of Hurricane Katrina," J. Zissimopoulos, L. Karoly, Demography, May 2010

[18] "Entrepreneurship, economic conditions, and the Great Recession," R. Fairlie, Institute for Labor Economics, May 2011

[19] "An Uphill Battle: COVID-19's Outsized Toll on Minority-Owned Firms," L Misera, Federal Reserve Bank of Cleveland, October 2020

- However, a new business that remains small for several years, due to lack of capital or other factors, is unlikely to become a significant source of job creation, which argues for policy – including relating to capital access – to be particularly supportive of startups obtaining and maintaining adequate capital to support investments in expansion.[20]
- Furthermore, capital access is a determinant of the industries an entrepreneur can enter, with many higher growth industries requiring greater capital. Minority-owned businesses historically and in the present are concentrated industries with low relatively capital requirements to enter, but which tend not to have high growth characteristics, which in turn is a significant determinant of job creation, employee wage growth and wealth creation.[21][22]

B. Local market analyses in two major metropolitan areas, where minority-owned businesses are disproportionate concentrated, project significant unmet needs for capital among small businesses.
   - In New York City, projections are for:
     - Small businesses seeking to grow to require $1.1B- $2.7B in the first year of recovery; $689M -$1.7B of this amount is estimated to be required by minority small business owners.[23]
     - New business launches to require $303M- $705M in estimated total capital; $123M-$287M of this amount is estimated to be required by minority entrepreneurs.[24]
   - In Los Angeles County, there is an estimated unmet annual capital demand among small businesses of $60 billion, with particular gaps in lending in neighborhoods with high concentrations of Black and Latinx residents.[25]

C. Without sufficient capital, many minority-owned businesses will be unable to benefit from purchasing pledges made by states, municipalities, and private industry in 2020 following protests over the deaths of George Floyd and Breonna Taylor, among others.
   - For example, New York City pledged to invigorate and vastly expand municipal contracting with MWBEs, including to grant $12 billion in City contracts to MWBEs between 2020 and 2025, and to increase utilization of MWBEs for contracts to 30% in the current fiscal year.[26] Yet New York City, like many other municipalities, has been scrutinized for lagging behind in contracting with African American, women and Latinx businesses, receiving grades from the NYC Comptroller of F, D and C, respectively, for its performance in fiscal 2019.[27] Any progress that is made will

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[20] "Who Creates Jobs? Small Versus Large Versus Young," J. Haltiwanger, R. Jarmin, J. Miranda, The Review of Economics and Statistics, May 2013

[21] "To expand the economy, invest in Black businesses," A. Perry, C. Romer, The Brookings Institution, December 31, 2020

[22] "The Tapestry of Black Business Ownership in America: Untapped Opportunities for Success," I. Gorman, C. Evans, Association for Enterprise Opportunity, February 16, 2017

[23] "New York City Small Business Ecosystem Assessment: Building a more inclusive, resilient New York City," NextStreet & CommonFuture, Fall 2020

[24] "New York City Small Business Ecosystem Assessment: Building a more inclusive, resilient New York City," NextStreet & CommonFuture, Fall 2020

[25] "Los Angeles County Small Business Ecosystem Assessment: Building a more inclusive, resilient Los Angeles County," NextStreet & CommonFuture, Fall 2020

[26] "Mayor Signs Executive Order Supporting Minority and Women Owned Business," Cityland, August 14, 2020

[27] "Making the Grade," NYC Comptroller Scott M. Stringer, November 17, 2019

translate to outsized growth in need for financing from a segment of businesses that, per the New York Fed data, have weak relationships with traditional banks.[28]

- In general, large G2B or B2B purchasers maintain significant vendor requirements as a matter of operational and risk management necessity, to ensure their suppliers have the capabilities to fulfill vital orders as specified and on time. Lack of capital should not be a reason minority-owned small businesses cannot take advantage of an overdue but welcome effort on the part of large purchasers to make an economic equity impact with their operating budgets.

D. Multiple major studies in recent years spotlight the enormous opportunity cost to the national economy from racial inequities, and the enormous benefit available to the economy from supporting minority-owned businesses. However, in addition to the recent literature, it also is illuminating to review a report from 2010 commissioned by the Minority Business Development Agency, with interesting parallels to the present day, as the report considered issues around capital access disparities for minority owned businesses in the context of the immediate aftermath of the Great Recession.[29] Though it is difficult not to come away from that report with the feeling that we have been here before, I hope it instead will help the Subcommittee redouble your resolve to make the current effort big and smart enough to make a step-change difference in the capital access environment, and for the real prosperity of small and minority-owned businesses.

- According to a 2020 Citigroup study[30]:
    - Not addressing racial gaps between Blacks and whites has cost the U.S. economy up to $16 trillion over the past 20 years.
    - Closing four key gaps – wages, homeownership, higher education, a small business financing – could generate $5 trillion in additional GDP over the next five years, representing 0.35 percentage point boost to U.S. GDP growth per year, and even a positive impact on global growth.
    - Closing the share of Black-owned firms-gap 20 years ago might have generated $13 trillion of revenues for investment, 6.1 million jobs per year, and a cumulative $182 billion in income for consumption.
- According to a 2018 study by the W.K. Kellogg Foundation and Altarum[31]:
    - By 2050, the U.S. stands to realize an $8 trillion gain in GDP by closing the U.S. racial wealth gap – an amount greater than the current GDP of every country in the world except the U.S. and China.
    - Overall spending would increase by $2.6 trillion. Consumer spending alone could increase by more than $1 trillion, and federal, state, and local governments in aggregate could gain an additional $550 billion annually in tax revenue to fund priorities and reduce public debt.
    - The projected boost to GDP would be 22%, or the difference from 2% annual GDP (the CBO's long-term projected growth rate) and 2.5% GDP.

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[28] "Double Jeopardy: COVID-19's Concentrated Health and Wealth Effects in Black Communities," Federal Reserve Bank of New York, August 2020

[29] "Disparities in Capital Access between Minority and Non-Minority-Owned Businesses: The Troubling Reality of Capital Limitations Faced by MBEs," R. Fairlie, A. Robb, for U.S. Department of Commerce, Minority Business Development Agency, January 2010

[30] "Closing the Racial Inequality Gaps: The Economic Cost of Black Inequality in the U.S.," Citigroup, September 2020

[31] "The Business Case for Racial Equality: A Strategy for Growth," A. Turner, W.K. Kellogg Foundation and Altarum, 2018

- According to a 2017 study by the Association for Enterprise Opportunity[32]:
    - If just 15% of Black-owned nonemployee firms (sole proprietors) hired just one employee, it could add $33 billion to the economy.
    - If Black-owned employer firms added just two more employees, to bring them on par with the average employment size for all U.S. firms, the revenue generated on a per employee basis could add an additional $22 billion to the economy.

IV. SSBCI's Potential Impact, and Lendistry's Impact in the SSBCI Program

A robust and thoughtfully designed SSBCI reauthorization should have the effect of drawing more lenders into the market to serve smaller and minority-owned businesses. By increasing borrowers' access to responsible sources of financing, the competitive environment for unscrupulous lenders will become more difficult, which in turn would be expected to make them less attractive vehicles for the investors who capitalize them. Furthermore, by attracting new and responsible entrants to the market for financing small and minority-owned businesses, the SSBCI will be a means by which some responsible lenders will gain their first direct experiences with an underserved segment of the borrower market, which in turn could lead some lenders eventually to make expanded commitments to the market segment.

As a CDFI with a mission of serving underserved small business communities, Lendistry has participated in several SSBCI programs over the course of four years, and funded millions of dollars in loans. These programs have allowed us to be flexible in our underwriting criteria while remaining focused on a disciplined credit culture and strong risk management. SSBCI programs have allowed us to finance non-profit schools that serve economically disadvantaged children and veteran and minority owned small businesses that provide employment services to the Department of Defense.

However, we could have originated more. Lendistry had two main barriers to entry into these programs: onerous paperwork as we attempted to gain multi-state approval, and lack of capital to deploy. SSBCI legislation should grant CDFIs automatic authorization to participate in SSBCI programs on a national basis. New SSBCI authorization also must include a process for rescinding funds from states that do not utilize the program expeditiously and redeploying the capital to states that utilize and abide by the program with effective systems for deployment of funds. Such a measure will remedy a flaw in the original SSBCI program, in which some state SSBCI programs still had funds remaining from the initial $1.5 billion allocation at the expiration of the program, while many other states had exhausted their funds. When authorized funds for such an important and powerful program as SSBCI languish unused, there are underserved small businesses that suffer as a result.

The SSBCI provides a significant incentive for approved lenders to utilize the program, in the form of loan guarantees. Requiring states to add an additional 10% coverage in their credit enhancement programs to each loan to an underserved borrower is a small tweak that would carry a lot of power in enhancing the effectiveness and impact of the SSBCI program for underserved small businesses.

The stakes for expanding responsible lending are enormous and the urgent need for action in this regard cannot be overstated. It is critical that as this Subcommittee and others work on the SSBCI program, both program design and considerations for enabling lenders to maximize their impact remain top of mind.

V. Lendistry's Insights and Recommendations on SSBCI Reauthorization

[32] "The Tapestry of Black Business Ownership in America: Untapped Opportunities for Success," I. Gorman, C. Evans, Association for Enterprise Opportunity, February 16, 2017

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To expand on the summary provided in the opening of this testimony:

1) The funding level for the SSBCI should be at least $10 billion. Lendistry agrees with the recommended funding proposal of $10 billion that has been voiced both within the prior Congress, as reflected by former Congressman McAdams' bill, and from organizations dedicated to closing the funding gap facing minority-owned businesses, such as the Small Business Majority and fellow CDFI, the Opportunity Fund. The funding commitment must be large enough to enable the SSBCI to fulfill the dual imperatives of supporting business survival and stabilization, while also supporting new business formation and growth.

2) The portion of the authorized funds for the SSBCI that will be dedicated to minority-owned businesses should be 60%. The disproportionate decimation of minority employment and minority-owned businesses over the past 11 months, combined with the longstanding disparity in access to capital that minority business owners have faced, with ever-increasing implications of gaps in generational wealth creation and neighborhood revitalization, demands that the SSBCI be designed with an intentional objective of making a disproportionately positive impact for minority owned businesses. As an increased focus on equity begins to open new doors to long shut out business owners, it is vital that their businesses have adequate capital necessary to seize the new opportunities. Accordingly, more than a majority of the funding should be dedicated to minority-owned businesses, and 60% is appropriate.

3) At least 5% of authorized funds for the SSBCI should be dedicated to enhancing and providing technical assistance to prospective applicants, particularly in the areas of i) recovery planning, ii) generating financial statements, iii) upgrading technological skills in order to take advantage of commonly-available and increasingly necessary business software tools and applications and iv) understanding credit. Lendistry's extensive first-hand experience on the front lines of PPP loan and small business grant administration during the pandemic has crystallized the urgent need among small and minority-owned businesses for significant assistance in fulfilling application requirements, particularly in the specific skill areas noted above. The success of the SSBCI program depends on providing no less than 5% of funding to technical assistance and putting in place oversight to ensure the funds are effectively spent.

4) The legislation should grant automatic national authorization to offer SSBCI-supported loans to the following categories of federally-certified institutions so that such institutions are exempted from any federally-conducted state-by-state approval process: Community Development Financial Institutions (CDFIs), and Small Business Administration-approved Community Development Corporations (CDCs) and Business Development Corporations (BDCs). The process of CDFIs, which are federally-certified, obtaining from federal agencies state-by-state approval to expand their geographic footprint is redundant, operationally burdensome and, most important, creates barriers to small businesses obtaining access to capital.

5) With regard to program design, each program supported by the SSBCI should provide for loans to minority-owned businesses to qualify for 10% additional guaranteed coverage. For example, a feature of the Collateral Support Program offered by some states is a companion program that provided additional 10% loan coverage for businesses that qualified as operating in a Severely Affected Community. The same principal and benefit should be extended across all programs for minority borrowers.

6) The SSBCI's authorizing legislation and rules should recognize the value created by states deploying their allocated funds on an expeditious basis, by creating mechanisms to revoke funds from states that fail to deploy their allocated capital expeditiously and redeploy revoked funds to states that effectively utilize program funds. Such mechanisms would help to address a shortcoming of the original SSBCI program, which resulted in many

state programs running out of funds while other state programs still had funds remaining when the program expired.

VI. Conclusion

Reauthorization of SSBCI is an important opportunity that the Subcommittee should seize aggressively to bring about the degree of impact that is necessary to alleviate and reverse the widening capital disparity and the rapidly deteriorating state of U.S. small and minority-owned businesses during the pandemic, while also supplying necessary capital for new business formation and growth to fuel national economic expansion. It is vital that SSBCI is 1) large enough to meet the dual need; 2) designed to make an impact for minority-owned businesses, from the size of a dedicated allocation to the funding provided for specific technical assistance needs, to features that will help ensure that its funds are deployed expeditiously and completely; and 3) includes provisions that remove obstacles that historically have limited CDFIs' impact.

Lendistry's front lines perspective on the continuing worsening plight of small and minority-owned businesses during the pandemic, combined with the senior management team's longstanding focus on providing critical capital to underserved small businesses, informs the perspectives and recommendations provided today. Thank you for your interest in my testimony and for the opportunity to provide the Subcommittee with my insights.