

Testimony of Clifton G. Kellogg

House Financial Services Committee Subcommittee on National Security, International Development, and Monetary Policy “Supporting Small and Minority-Owned Businesses Through the Pandemic” February 4, 2021

Hi, my name is Cliff Kellogg. I would like to thank the committee for inviting me today and for holding this hearing on this crucial issue. My full resume has been provided to the committee, however I believe the committee invited my testimony primarily based on my experience directing the State Small Business Credit Initiative during the Obama-Biden Administration, an initiative the committee is considering for reauthorization.

First, I would like to review SSBCI’s outcomes to demonstrate that this economic recovery program can play a critical role in the recovery of small businesses and communities across the country. Second, I would like to offer a few ideas on how SSBCI could be scaled up and extend its impact on minority owned businesses and disadvantaged communities.

In the wake of the 2009 recession, lawmakers designed SSBCI to induce more private-sector lending and investing. Then, as now, economic conditions made lenders and investors extremely cautious. Today, the lack of credit is literally starving many small businesses to death, but especially minority-owned firms. In the Federal Reserve Banks’ Small Business Credit Survey released yesterday, just 13 percent of African American owned firms received the full amount of financing they sought, while over three times as many White-owned firms received the full amount they requested.

SSBCI’s strategy is to provide states with funds to turbo-charge the availability of loans and equity capital by sharing in the risk of financial losses. In 2010, SSBCI awarded \$1.5B to programs in all 50 states, D.C., and the U.S. territories.

- SSBCI funds supported over 21,000 new loans and investments, exceeding \$10.7 billion. In other words, each federal dollar leveraged \$9 in private sector capital.
- 43 percent of the loans or investments went to firms in low- or moderate-income census tracts, and 41 percent went to women-owned or minority-owned businesses.
- SSBCI built the capacity of state agencies to benefit underserved businesses and communities.

I will share three lessons or observations:

1. A key element of SSBCI’s success was giving states the flexibility to design their program to suit local conditions. States funded startups and expansions, manufacturing loans and microloans. States provided additional collateral for loans or funded reserve accounts for losses on a portfolio of loans. Some states operated their program directly; others hired a private contractor to manage the program.

2. SSBCI support enabled lenders to make larger loans or loans on more favorable terms than they would have made. SSBCI required at least \$1 of private capital at risk for every federal dollar. The state's application had to show how leverage would increase to 10:1 during the program.
3. Well-run programs reached a vast range of small businesses, including underserved businesses. The hallmarks of a well-run program are simple: identify the capital gaps, make the program easy to understand, and staff the program with lenders or investors who are responsive to the needs of aspiring entrepreneurs and businesses, including minority-owned firms.

Now, I will turn to a critical question before the Committee: how could SSBCI Version 2 be structured?

1. First, re-authorizing the original SSBCI program with higher appropriations to benefit more businesses. As part of reauthorization, states should include outreach through CDFIs and Minority Depository Institutions (MDIs). States should be authorized to gather demographic information on small businesses served and be held accountable to invest a fair share in disadvantaged businesses.
2. Increase states' allocations or run a competitive funding round for **states** that reach a high percentage and/or high number of minority-owned firms. Consider lowering the required leverage requirements for these extra funds.
3. Provide funding for technical assistance to small businesses, which is essential to assure equitable access and optimum use of these resources.
4. Run a competitive funding round that awards funds **directly to lenders and investors** with a multi-state footprint, provided they serve a high percentage and/or high number of minority-owned firms. A multi-state footprint is especially important for equity investment programs that target underserved communities for an adequate deal flow.

In summary, after the last major recession, SSBCI demonstrably supported small business economic recovery. The current credit crisis is even more severe, The public health measures taken to control the COVID-19 pandemic have inflicted a terrible cost on minority small businesses and their employees. The need to find solutions is surely a unifying issue across the political spectrum. An expanded SSBCI, with enhancements to reach underserved communities can be part of the nation's recovery strategy.

Thank you for the opportunity to offer this information and I welcome any questions you may have.

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