Office of Recovery Programs
Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20220

Re: SSBCI Interim Final Rule Comments, Docket TREAS-DO-2022-0005

April 11, 2022

Hope Policy Institute and the African American Alliance of CDFI CEOs submit this comment in support of the Interim Final Rule to collect demographic information through the State Small Business Credit Initiative (SSBCI).

The African American Alliance of CDFI CEOs (The Alliance) is a coalition of 60 CEOs of Black-led Community Development Financial Institutions (CDFIs), comprising loan funds, commercial real estate organizations, credit unions, venture capital firms, and non-profit developers. Since 2018, The Alliance has represented all 50 states and the District of Columbia. As a result, members are uniquely positioned to address issues related to housing and access to capital for African American populations and communities.

HOPE (Hope Credit Union / Hope Enterprise Corporation/Hope Policy Institute) is a Black- and women owned Community Development Financial Institution (CDFI) credit union, a CDFI loan fund, and a policy and advocacy organization. HOPE serves Alabama, Arkansas, Louisiana, Mississippi and Tennessee – a region that is home to over a third of the nation's persistent poverty counties, most of which are rural. HOPE was established to ensure that all people regardless of where they live, their gender, race or place of birth have the opportunity to support their families and realize the American Dream. Since 1994, HOPE has generated over $3.6 billion in financing and related services for the unbanked and underbanked, homeowners, entrepreneurs and small business owners, nonprofit organizations, health care providers and other community and economic development purposes. Collectively, these projects have benefited more than 2 million individuals throughout the Deep South.

The Interim Final Rule is a welcome improvement to the State Small Business Credit Initiative in its requirement of participating jurisdictions to collect demographic data of SSBCI-participating businesses. Gathering, and reporting on, this data is necessary to ensure SSBCI resources reach underserved communities, as well as women-owned businesses and businesses owned by people of color. The failure to collect such data, as shown by the Paycheck Protection Program, leaves gaping holes in understanding the demographics of who benefited from these funds. As further demonstrated by the state-level CARES Act programs, states have already demonstrated their capability to collect such data from businesses receiving support through federal relief dollars.

In addition to collecting this demographic data about the businesses, Treasury should also collect data necessary to assess the geographic distribution of the businesses served. During the previous round of SSBCI, states provided thorough data on the rate at which SSBCI funds were directed to businesses in Low to Moderate Income and non-metro areas. This round, Treasury should also collect and report on the flow of SSBCI dollars to persistent poverty counties and communities of color.

In support of this Interim Final Rule, this comment notes the pre-existing disparities in small business capital, racial inequities in the distribution of other federal small business relief dollars, and the importance of gathering and reporting disaggregated data.

<u>Pre-Existing Disparities in Small Business Lending Make the Interim Final Rule Imperative</u>

Collecting demographic data, like that required by the Interim Final Rule, is necessary to document the reach of SSBCI funds to various communities of small business owners. It will provide insights on how well SSBCI reaches underserved communities and how the small business relief programs perform in communities that have clear racial and historical challenges in accessing capital. SSBCI funds will be distributed by the very same financial system that created these disparities in the first place; thus, transparency is required to ensure these patterns are not continuously repeated.

The current reality is that Black-owned businesses are less likely to have an existing relationship with a financial institution, just as, or more, likely to seek credit, and yet, are more likely to be denied or discouraged than white owned businesses. Fewer than 25% of Black-owned employer firms have a recent borrowing relationship with a bank.[1] This number drops to 10% among Black non-employer firms, compared with 25% white-owned non-employers.[2] These gaps in financial relationships exist even among healthy firms. According to the Federal Reserve Bank of New York's August 2020 report, Double Jeopardy, 73% of healthy or stable white employers have an existing banking relationship, compared to 42% of healthy or stable Black employers.[3] The lack of access to capital is not due to Black businesses not applying for it. Black-owned firms—both employer and non-employer—apply for financing at equal or higher rates than white-owned firms but are denied at higher rates.[4] Black business owners are also more likely than white owners to report being discouraged, or not applying for financing because they believe they will be turned down. Among Black employer firms, 37.9% reported being discouraged, compared to 12.7% of white-owned firms.[5]

In looking specifically at the Deep South, one in three businesses in the states of Alabama, Arkansas, Louisiana, Mississippi, and Tennessee are owned by people of color and nearly 40% are owned by women.[6] In Mississippi and Louisiana, more than 20% of businesses in each state are Black-owned.[7] These businesses are integral to the fabric of Deep South communities and economies, but yet they historically do not receive equal access to capital. In Arkansas, from 2017 to 2020, just 1.5% of SBA 7(a) loans went to Black businesses, even though Black-owned businesses comprise 9% of businesses in the state.[8] Notably, over 60% of Black-owned businesses in Arkansas are owned by women, and are primarily located in lower-income areas.[9] A 2019 survey of Arkansas entrepreneurs illuminates disparities in their experiences in access to capital.[10] Among the findings: between 2017 to 2019, 45% of female entrepreneurs of color were denied a loan, compared to 11% of white female entrepreneurs.[11] These businesses reported severe related consequences, most frequently citing the inability to compete on a higher scale, expand products or services, purchase needed equipment, grow their workforce as needed and insufficient operating capital. These consequences ripple beyond individual businesses into the communities and economies in which they operate. Ensuring fair lending for these businesses is necessary for the economic prosperity of our region.

<u>Deep Disparities Exist in Previous in Federal and State Small Business COVID-19 Relief Efforts</u>

These disparities and experiences were present prior to COVID-19, but the Paycheck Protection Program (PPP) put them on full display. This was clear from HOPE's vantage point in serving smaller businesses and businesses of color. Many of the businesses that reached out to HOPE had been underserved or unserved by traditional lenders during the PPP process. A Black dentist was not funded by a large bank, and the bank never called to check on the application. The dentist applied with HOPE, and we approved her $12,000 loan request. HOPE approved a woman-owned staffing company in Memphis, coming to us after having received no response from her regional banks. HOPE approved a $7,200 loan for a Black-owned, 27-year old barbershop in New Orleans after the owner received no help from the bank he had asked to assist him. These stories were a constant narrative in our PPP lending process, an extension of a banking system that has historically failed to serve communities of color and low-income communities with the same attention as others. SSBCI will be sending billions in federal support through this inequitable financial system which distributed PPP funds.

Additionally, experiences with state-level CARES Act programs confirm the importance of the collection and publication of demographic data. In Tennessee's CARES-Act funded Small Business Relief Program, which provided direct payments to designated businesses, 90% of the relief funds went to white-owned businesses in the state. This is attributable to a racially discriminatory formula used in determining the payment amount.[12] In Mississippi, despite an allocation by the state legislature of $40 million (out of a larger $240 million program) for a 60-day priority set-aside for businesses owned by women and people of color, the state only deployed $2 million to these businesses during the designated time frame.[13] While Mississippi has disclosed how much of the funds went to certified Minority and Women Owned Businesses (MWBEs), it has neither fully released the amount flowing to self-identifying MWBEs, nor the demographics of application and denial rates.[14] In contrast, Louisiana's deployment of CARES

Act funds to small businesses demonstrated that it is possible for state government lending entities to gather and report this data. Louisiana published a public interactive dashboard of the program results including data on race, gender, industry sector, and Parish location.[15] The report shows that Louisiana's Treasury Department deployed over $262 million in CARES Act funding in the form of small business grants, with 42% ($111 million) reaching businesses owned by people of color.[16]

The outcomes of PPP, CARES Act, and the impact of COVID-19 on small businesses of color, should be top of mind when implementing the Interim Final Rule to ensure that businesses owned by people of color and women have fair access to SSBCI resources capital. The racial disparities in access to PPP funds, state CARES Act funds, and COVID-induced business closures will reverberate for years in the growth and health of businesses owned by people of color. Fair access to capital in the years ahead is critical to closing the gaps it caused and perpetuated.

Collecting Disaggregated Data Illuminates Experiences of Different Racial and Ethnic Groups

Collecting of disaggregated data will allow for comparison among different racial, ethnic, and gender categories. For marginalized businesses, this is key in identifying unique challenges and experiences for specific market segments. For example, the Federal Reserve reveals stark differences exist even within businesses owned by historically marginalized racial and ethnic groups. According to the 2021 Federal Reserve Small Business Credit Survey, just 13% of Black-owned businesses received the full amount of credit which they were seeking, a lower rate than Hispanic-owned businesses (20%) and Asian-owned businesses (31%). Each of these are lower than the experiences of White-owned businesses (40%).[17] This is just one example of the racialized differences in accessing capital and underscores the importance of disaggregated data. Without it, the rate in which Black businesses receive the capital requested would have been hidden.

Conclusion

Collecting demographic data as required by the Interim Final Rule gives credence to the countless anecdotes of underserved businesses that have been denied capital or relegated to exploitative financing, while their counterparts benefit from a more responsive and supportive financial service system. The rule will quantify and make transparent the extent to which financial institutions utilize federal funding resources to serve - or not serve - business owners of color and other marginalized groups.

Small businesses owned by people of color are more likely to employ people of color. Consequently, their stability and growth is necessary for reversing disparate COVID-19 related employment losses. In an increasingly diverse nation, closing the small business capital gap is key to building wealth in Black communities and necessary for a robust, equitable economy.

While white adults have 13 times the wealth of Black adults, the gap closes to three to one when comparing the median wealth of white business owners to Black business owners.[18] Furthermore, a recent study that examined the disparities in life cycles between Black and white-owned businesses, noted "the continued health of an entrepreneur's business is vital to wealth creation. When a business ends, the wealth gains that business produced can be washed away, and even leave the entrepreneur worse off than they started."[19] Closing the racial wealth gap has the potential to increase the national Gross Domestic Product (GDP) between $1 and $1.5 trillion by 2028.[20]

For these reasons, it is vital for Treasury to require that demographics of SSBCI beneficiaries are captured to ensure that these federal funds close, rather than widen, racial and gender capital gaps.

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[1] Claire Kramer Mills and Jessica Battisto, Federal Reserve Bank of New York, "Double Jeopardy: Covid-19's Concentrated Health And Wealth Effects In Black Communities," Aug. 2020, at 6 https://www.newyorkfed.org/medialibrary/media/smallbusiness/DoubleJeopardy_COVID19andBlackOwnedBusinesses (Double Jeopardy)
[2] Id.
[3] Id.
[4] Id. (finding "Among Black-owned firms, 28% of nonemployers and 54% of employers applied for financing in the last 12 months, compared to 45% of white employer firms and 25% of white nonemployers).
[5] Id.
[6] Hope Policy Institute Analysis of the SBA Office of Advocacy, "2021 Small Business Profiles For the States, The District of Columbia, and the U.S.," August 2021. Includes both employer and non-employer firms.
[7] Id.
[8] Precise Data Consulting, LLC, "Arkansas Small Business Access to Capital, At a Glance, SBA 7(A) Loans F2017 - F2020," prepared for Winthrop Rockefeller Foundation, December 2020, https://d2yzrxf02jgvo7.cloudfront.net/files/capital-access-report-update-final-147-b27b.pdf
[9] Kristy Carter, University of Central Arkansas and Women's Foundation of Arkansas, "Women of Color and Business Entrepreneurs in Arkansas," 2020, https://indd.adobe.com/view/4af11266-20c0-4ab1-919f-c7edf581798f
[10] Precise Data Consulting, LLC, "Arkansas Small Business Access to Capital Study," prepared for Winthrop Rockefeller Foundation and Winrock International, June 2019, https://d2yzrxf02jgvo7.cloudfront.net/files/capitalaccess-report-final-146-7ecf.pdf. (reporting findings of survey of 3,000 small business owners, plus focus groups and one-on-one interviews)
[11] Id.
[12] For information on the racially-biased funding formula, see NAACP Legal Defense Fund, Letter to Governor Bill Lee Re: Tennessee Small Business Relief Program, July 6, 2020, available at https://www.naacpldf.org/wpcontent/uploads/Tennessee-Letter-2020-07-06-1.pdf.
[13] Diane Standaert, "Mississippi's Small Business Relief: Gaps and Opportunities," Hope Policy Institute, Aug. 25, 2020, http://hopepolicy.org/manage/wp-content/uploads/Mississippis-Small-Business-Relief-Gaps-andOpportunities-Brief-Final-1.pdf.
[14] Geoff Pender, "COVID-19 grant program promised to prioritize minority businesses. Did it?," Mississippi Today, June 11, 2021, https://mississippitoday.org/2021/06/02/cares-act-money-mississippi-businesses/.
[15] Louisiana Department of Treasury, "Louisiana Main Street Grant Recovery Program, https://stories.opengov.com/latreasurer/published/YbOtGAB3m.

[16] Louisiana Department of Treasury, "How Main Street Helped Small Businesses Survive," https://jlcb.legis.la.gov/Docs/2021/feb/February%202021%20RTC%20Act%20311%20Treasury%20Main%20Street%20Recovery%20Grant%20Program.pdf. (For purposes of the Louisiana program, a business was considered minority owned or women-owned if it was "at least fifty percent owned by one or more" of such individuals.")

[17] Federal Reserve. (2021). "Small Business Credit Survey: Report on Employer Firms". https://www.fedsmallbusiness.org/medialibrary/FedSmallBusiness/files/2021/2021-sbcs-employer-firms-report

[18] Association for Enterprise Opportunity, "Tapestry of Black Business Ownership in America: Untapped Opportunities for Success," Feb. 2017, https://www.aeoworks.org/images/uploads/fact_sheets/AEO_Black_Owned_Business_Report_02_16_17_FOR_WE B.pdf

[19] Graham Wright, Rebecca Loya, Tatjana Meschede, Jessica Santos, and Thomas M Shapiro, "Redefining Risk: Racial Disparities in Entrepreneurship and Financial Wellbeing Redefining Risk: Racial Disparities in Entrepreneurship and Financial Wellbeing," Institute on Assets and Social Policy and The Heller School for Social Policy at Brandeis University, Oct. 23, 2019, https://heller.brandeis.edu/iere/pdfs/racial-wealth-equity/racial-wealthgap/redefining-risk-racial-disparities.pdf

[20] McKinsey and Company, "The Economic Impact of Closing the Racial Wealth Gap," Aug. 13, 2019, https://www.mckinsey.com/industries/public-and-social-sector/our-insights/the-economic-impact-of-closingtheracial-wealth-gap