



December 2, 2021

The Honorable Benjamin Cardin
Chairman
U.S. Senate Committee on Small Business
& Entrepreneurship
Washington, D.C. 20510

The Honorable Rand Paul
Ranking Member
U.S. Senate Committee on Small Business
& Entrepreneurship
Washington, D.C. 20510

The Honorable Nydia Velazquez
Chairwoman
U.S. House Committee on Small Business
Washington, D.C. 20515

The Honorable Blaine Luetkemeyer
Ranking Member
U.S. House Committee on Small Business
Washington, D.C. 20515

Re: Build Back Better Act, Title X, Subtitle B, “Empowering Small Business Creation and Expansion in Underrepresented Communities.”

Dear Chairman Cardin, Chairwoman Velazquez, and Ranking Members Paul and Luetkemeyer:

On behalf of the members of the National Bankers Association (NBA) and Community Development Bankers Association (CDBA), we write to express our support for the Small Business Administration (SBA) programmatic changes included in the House “Build Back Better” budget reconciliation bill. In particular, we support the establishment of offices targeting SBA programming to underserved communities under Title X, Subtitle B, “Empowering Small Business Creation and Expansion in Underrepresented Communities.” Our organizations represent lenders that serve communities’ targeted to benefit from Subtitle B, and we applaud Congress for considering these steps.

We also write to urge Congress to enhance Subtitle B so that it properly leverages historic investments authorized under the Consolidated Appropriations Act, 2021 and which are already underway. We believe Congress should A) create a Office of Minority and Community Development Banking, to complement the new Offices already proposed, and B) take steps to lower administrative barriers to participation in SBA programs by minority-owned (MDI) and CDFI banks. The Office of Minority and Community Development Banking would help SBA leverage mission-driven private sector capital via increased participation by MDI and CDFI banks in SBA programs. *A total of \$12 billion of MDI and CDFI bank Consolidated Appropriations Act 2021 stimulus funds have been, or are soon to be, deployed, through Treasury’s \$9 billion Emergency Capital Investment Program (ECIP), and the CDFI Fund’s \$1.25 billion Rapid Response Program (RRP) and \$1.75 billion Emergency Support and Minority Lending Program (MLP). Now is the perfect time for Congress to ensure MDI and CDFI banks have every opportunity to partner with SBA and fully leverage their capital funds for the benefit of underserved communities.*

Since its founding in 1927, the National Bankers Association (NBA) has served as a voice for Black and other minority-owned banks (MDI Banks). Now, with membership, that includes Hispanic-American, Asian-American, Native-American, and women-owned banks, our reach extends across the country. We believe strongly in advocating for not only our member banks, but also the communities they serve. Our members help low and moderate-income communities across the country, and are committed to providing economic revitalization to families in those neighborhoods.

CDBA is the national trade association for banks and thrifts that are US Treasury-designated Community Development Financial Institutions (CDFIs) - banks with a mission of serving low- and moderate- income communities that are underserved by traditional financial service providers. Our members work in impoverished urban, rural, and Native American communities. Many of our members are also MDIs. CDFI banks have a strong focus on small business lending, and promote entrepreneurship and economic opportunity by providing financial products and services to small businesses located in places that are often disinvested and under resourced.

SMALL DOLLAR BUSINESS LOANS AND MINORITY ENTREPRENEURS

NBA and CDBA share Congress' concern over the capital gap for small, underserved and minority-owned businesses. Build Back Better Act should address the capital gap issue from the supply-side by easing barriers to private sector financing from mission-driven lenders. Despite small businesses being both numerous and essential, small business loan volumes in minority LMI communities remain a fraction of loan volumes in upper-income areas. We note especially that the five-year decline in lending going to very small businesses parallels disparities in access to bank branches by minority- and LMI-owned small businesses. An average of 70 percent of minorities do not have a bank branch in their neighborhood, and the number of banks serving lower-income neighborhoods is the lowest level among neighborhood income quartiles, and continues to decline.

The need for capital is acute. Pre-pandemic, 1.1 million minority-owned small businesses employed more than 8.7 million workers and generated more than \$1 trillion in economic output annually. Women own nearly 300,000 of them, employing 2.4 million workers. Despite their significance, these businesses face underlying challenges that make them vulnerable during normal times. In an assessment of the financial health of companies, the Federal Reserve Board has reported that minority- and LMI-owned small businesses were significantly more likely to show signs of limited financial health—by factors such as profitability, credit scores, and propensity to use retained earnings as a primary funding source. These small businesses also often suffer from insufficient collateral, such as limited guarantors, limited real estate, or limited personal property equity.

Given the challenges faced by minority- and LMI owned small businesses, it is imperative to realize that MDI and CDFI banks are the best placed institutions to leverage SBA's tools and provide capital in these communities.

While MDI and CDFI banks are economic development engines due to their relative concentration in minority and LMI communities and established relationships, these lenders' small scale has historically limited their ability to comprehensively address their communities' challenges. *Coupling*

the \$12 billion of MDI and CDFI bank focused stimulus funding with strong SBA technical assistance, will help change that. The current Build Back Better legislation expands SBA's ability to target underserved areas via new programs in good ways. Programs such as UPLIFT Incubators and offices such as an Office of Native American Affairs, Office of Rural Affairs, and an Office of Emerging Markets will be more successful if they intersect with an Office of Minority and Community Development Banking that is dedicated to leveraging private mission-driven capital and expertise.

The focus of the Office of Minority and Community Development Banking should be to integrate MDI and CDFI banks into SBA's outreach and servicing of minority- and LMI-owned small businesses. A critical duty of this office would be to preserve and promote MDI and CDFI bank participation in the small business lending market by:

- Providing technical assistance to ensure maximum efficiency in program implementation;
- Promoting and encouraging the creation of new MDI and CDFI bank partnerships;
- Actively integrating these lenders into program implementation, particularly programs focused on the communities these banks explicitly serve

This is very similar to existing requirements that bank regulatory agencies currently comply with in respect to MDIs. It also reflects the recent establishment of a complementary office by the Federal Deposit Insurance Corporation (FDIC), and a Mission-Driven Bank Fund, to ensure that MDI and CDFI banks receive effective regulatory support and access to capital to execute on their missions.

We urge Congress to authorize SBA to proactively lower administrative barriers to MDI and CDFI bank participation across SBA loan programs. The Office of Minority and Community Development Banking could help with implementation. The effects of these barriers are evident in the disproportionate number of African American borrowers as a share of all 7(a) and 504 program lending. In 2016, for example, African Americans only accounted for 2 percent of the lending activity in flagship SBA programs with Latino borrowers only fairsing slightly better. This is despite the established track records of our two member cohorts lending to their target communities within the bounds of their current scales:

- MDI banks have an established track record of higher rates of small business and SBA lending to minority entrepreneurs and a willingness to do larger SBA loans to diverse entrepreneurs relative to non-MDIs;
- CDFI banks regularly exceed the 60% LMI lending and service threshold required by the CDFI fund, directing 75.5% of their portfolio by amount, and 81% of their portfolio by count, to LMI target markets in 2020.

A new Office of Minority and Community Development Banking must be focused on specific goals to be effective. We recommend that Congress direct the Office to:

- Review the minimum loan number requirement for MDI and CDFI bank participation in certain SBA programs;
- Establish goals for diverse entrepreneur participation in SBA programs;
- Ensure SBA adequately compensates lenders for program participation by establishing a reasonable rate floor; and
- Increase the number of MDIs and CDFI banks in the SBIC and Preferred Lender programs.

We believe the best way to ensure that SBA program benefits actually make their way to diverse entrepreneurs, LMI communities, and the nonprofit institutions that serve LMI communities and communities of color, is to take affirmative steps to ensure that every MDI and CDFI bank has the ability to fully participate in every SBA program. Providing these lenders with the opportunity to leverage their capital and expertise to the full is vital to ensuring every community in the country can take part in our nation's economic recovery. We appreciate the opportunity to share our views with you and look forward to working with you to ensure the SBA has the resources and authority to fulfill its very important purpose.

If you have any questions, please contact Jeannine Jacokes, CDBA Chief Executive Officer, at (202) 689-8935 ext. 222 or jacokesj@pcgloanfund.org, or Nicole Elam, NBA President & CEO, at (202) 590-6880 or nelam@nationalbankers.org.

Sincerely,



Jeannine Jacokes
Chief Executive Officer
Community Development Bankers Association



Nicole Elam
President & CEO
National Bankers Association