



Testimony of

Connie Evans

**On behalf of the Association for Enterprise
Opportunity**

to the

U.S. Senate

Committee on Small Business &
Entrepreneurship

*Perspectives from Main Street: COVID-19's
Impact on Small Business*

June 3, 2020

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Thank you, Chairman Rubio, Ranking Member Cardin, and distinguished Members of the Committee, for the opportunity to share this testimony with you. My name is Connie Evans, and I serve as the President and CEO of the Association for Enterprise Opportunity.

The Association for Enterprise Opportunity (AEO) is the leading voice of innovation in microfinance and microbusiness in the United States. Since 1991, AEO and its member and partner organizations have helped millions of entrepreneurs contribute to economic growth while supporting themselves, their families and their communities.

Numbering more than 1,700, AEO's members and partners include a broad range of organizations that provide capital and services to assist underserved entrepreneurs in starting, stabilizing, and expanding their businesses. Together, we are working to change the way capital and services flow to underserved entrepreneurs so that they can create jobs and opportunities for all.

Beyond being the voice for financial inclusion through entrepreneurship, AEO is a fintech innovator that is responsible for creating myWay to Credit—the first bank referral marketplace for small business lending. myWay to Credit was developed with JP Morgan Chase, Woodforest National Bank, and the U.S. Treasury CDFI Fund. myWay to Credit gives options to small businesses that do not currently qualify for bank financing by connecting them to a vetted network of mission-based community lenders and small business mentors.

Today's hearing on the impact of COVID-19 on small businesses comes at a time as the nation struggles to combat a two-folded crisis: 1) the economic downturn sparked by the global health emergency; and 2) the profound presence of structural inequities and injustices that disproportionately impact communities of color.

The coronavirus pandemic has halted economic activity around the nation—sending Main Street businesses into a state of shock. At the onset of this crisis, experts projected that over half of the country's small businesses would face some level of uncertainty.¹ In the time since, the pandemic has stifled the small business ecosystem, exceeding experts' predictions.

Unfortunately, like preceding crises, minority populations are disproportionately impacted by this dreadful reality. Minority and women entrepreneurs historically face racial and gender challenges that ultimately lead to barriers for their businesses.² This pandemic has exposed and enlarged these structural disparities in a new way.

In late March, policymakers swiftly passed the *Coronavirus Aid, Relief, and Economic Security Act of 2020 (CARES)* and its subsequent relief legislation to address economic uncertainty caused by

¹ <https://www.brookings.edu/research/how-local-leaders-can-stave-off-a-small-business-collapse-from-covid-19/>

² <https://www.mckinsey.com/industries/social-sector/our-insights/covid-19s-effect-on-minority-owned-small-businesses-in-the-united-states>

the pandemic. The relief package, which formed the signature Paycheck Protection Program (PPP), has deployed more than \$500 billion to small businesses since early April. The legislation also called for the prioritization for underserved businesses.

Despite this unprecedented attempt to safeguard the nation's 30 million small businesses, lawmakers' intentions have not fully addressed the most vulnerable. In early May, the Small Business Administration (SBA) Office of the Inspector General (IG) released a report on the agency's implementation of the PPP and found that federal regulators failed to ensure the prioritization of underserved businesses.³ While the SBA and Treasury work to correct the structural flaws, the damage is already beginning to set-in for many overlooked businesses—particularly Black and Latinx-owned businesses.⁴

Take for example, the irreparable damage for Kwame Onwuachi, owner of the Kith and Kin, a popular black-owned restaurant here in the District. Onwuachi has recently succumbed to the financial challenges induced by the pandemic and closed his business, laying off 70 employees in the process. As it stands, he is unable to receive the funds necessary to survive due to regulatory and policy-gaps in small business relief programs such as the PPP.⁵ This reality remains true for many minority-owned businesses such as the historic Ben's Chili Bowl, who up until recently, struggled to receive a PPP loan due to an overwhelmed implementation system.⁶

These are local and brief examples of thousands of stories felt by AEO' membership. Not only are communities of color subjected to the economic fragility, health disparities, and resource inequities caused by policy-gaps, but they must also live with the presence of structural injustices.

It is challenging, as an organization that advocates for millions of minority-owned businesses, in addition to underserved urban and rural populations, to address this Committee without speaking to the broader environment of race relations in this country. As this past weekend has shown us, America continues to struggle with discrimination in every aspect of life. The avoidable and tragic deaths that continue to befall Black Americans only deepens divides. While Main Street cannot solve these problems, the outrage that follows these senseless killings very much plays out on Main Street. My only comments today on these issues, is that a future of economic opportunity for all communities, including entrepreneurial opportunity will help heal these deep wounds. This Committee's work to ensure that black-owned businesses survive the current economic crisis may very well help that healing.

AEO stands ready to help Main Street prosper. Most recently, we have focused our efforts on providing on-the-ground support for underserved entrepreneurs during COVID-19. With the

³ https://www.sba.gov/sites/default/files/2020-05/SBA_OIG_Report_20-14_508.pdf

⁴ <https://www.washingtonpost.com/business/2020/05/25/black-minority-business-owners-coronavirus/>

⁵ <https://www.wsj.com/articles/a-rising-star-chef-struggles-to-save-his-restaurant-11590767894>

⁶ <https://abcnews.go.com/US/coronavirus-pandemic-brings-bens-chili-bowl-iconic-dc/story?id=70243517>

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launch of the *Mainstreet RISE* campaign, AEO aims to help small businesses survive, recover, and thrive during these uncertain times. Through this campaign, we will, among other actions, help entrepreneurs generate sales and revenue for their enterprise and get mentorship and training.⁷

Our recent actions will also better equip policymakers on federal, state, and local levels. Amid the convening of our 2020 digital conference— *Resilient: Small Businesses Strengthening Local Economies*—today, we are releasing two reports focused on combating food disparities and addressing high recidivism rates in underserved communities. The *MICROBUSINESS: A Community-Centered Solution to Inequitable Food Systems* and *Endeavor READY Returning Citizen Entrepreneurship* reports will provide lawmakers with an in-depth analysis and entrepreneurial solutions that can bridge the policy-gap in the years ahead. We will submit the reports to the congressional record upon their release.

Despite our efforts to safeguard Main Street, the pandemic's lasting impact remains uncertain. Its economic consequences are projected to erase decades of minority enterprise growth in underserved markets. To prevent this, we believe policymakers must acknowledge the existing disparities in our small business ecosystem and take the necessary steps to create equitable legislation to ensure that vulnerable businesses survive and thrive in the years ahead.

To that end, we are proposing that Congress consider immediate and long-term solutions that will bolster underserved communities and examine the impact of federal small business relief programs. We suggest policymakers achieve this by:

Expanding Technical Assistance (TA) support

Low-income entrepreneurs who lack sufficient training and education depend on federal TA support to gain access to capital that establishes and expands their small businesses. Amid the current challenges ahead, these entrepreneurs and business owners will require increased TA services from the Small Business Administration (SBA.)

We urge lawmakers to commission a new program within the SBA that will 1) expand the reach of TA services beyond the agency's existing *Program for Investment in Micro-Entrepreneurs (PRIME) TA*; and 2) increase liquidity for microloan intermediaries that provide TA support to unserved businesses. The creation of a permanent technical assistance program will help meet the immediate needs and ensure that underrepresented markets can equitably access federal resources.

We also urge this Committee to continue its efforts to modernize many of the programs at SBA in desperate need of re-authorization. The outdated statute for many programs is limiting the ability of the programs to successfully respond to this crisis. For example, AEO has testified before this Committee about the importance of removing the 1/55th and 25/75 (now 50/50) rules in the

⁷ <https://aeoworks.org/mainstreetrise/>

microloan program. We also urge the Committee to make permanent the Community Advantage loan program—a prime example of how Congress responded to prioritize underserved communities. Many of our members are also SBA resource partner, whose programs have waited far too long for modernizations. We commend your efforts already to truly modernize the SBA in a comprehensive action and hope to see that work progress despite the crises we face.

Increasing Fiscal-Year 2021 appropriation levels

In addition to the TA support, policymakers must prioritize existing SBA mission-driven loan programs through additional appropriations. While new programs, like PPP, require attention, Congress should also deploy resources to the programs proven to help underserved and minority communities. Current SBA community-based programs such as the Community Advantage (CA) 7(a) loan program and the Microloan program are leading avenues of funding for women and minority small business owners.

As of 2019, the CA loan program has provided nearly \$800 million to 6,000 borrowers in low- and moderate-income (LMI) communities.⁸ Amid the current small business crisis, policymakers must seek to expand funding for these programs within the forthcoming FY2021 appropriation proposals. The increase and reauthorization of these programs will safeguard our most vulnerable small businesses in the months and years.

AEO will urge the House and Senate Appropriations Committees to substantially increase funding for these programs in FY2021 funding and hope this Committee will support that effort.

Supporting CDFI lenders

In many underserved markets, Community Development Financial Institutions (CDFIs) have become some of the leading lenders of credit and investment capital to small and emerging businesses.⁹ These mission-focused financial institutions commonly serve entrepreneurs that require loans less than \$100,000, while also offering assistance in refining business plans, analyzing market opportunities, and the like.

Despite this success, CDFIs frequently go overlooked by federal entities that distribute critical resources (e.g., PPP loans) in place of traditional financial institutions. We urge Congress to take action to support these lenders by 1) amending the PPP loan to ensure all certified CDFIs are eligible lenders; 2) guarantee all loans made by CDFIs and other mission-based lenders that serve low-income households and minority-owned firms during the crisis; and 3) increase the Department of Treasury's CDFI Fund operational budget to \$1 billion in FY2021 appropriations levels.

⁸ <https://fas.org/sgp/crs/misc/R41146.pdf>

⁹ <https://www.cdfifund.gov/Documents/Relationships%20between%20Community%20Development%20Financial%20Institutions%20and%20Conventional%20Lenders%20in%20Small%20Business%20Finance.pdf>

Prioritizing underserved and rural markets

As mentioned, minority and women PPP applicants went largely unserved by traditional lenders, despite congressional intent¹⁰. To call attention to this inequity, AEO joined with 50 industry-leading-organizations to launch the Page 30 Coalition.

In early May, the Coalition pinned a letter to Congress urging members to eliminate the PPP "first come, first serve" rule, extend the PPP through December 31, 2020, provide additional PPP funding only for firms with ten (10) or fewer employees, and the creation of a *CARES Act* transparency mechanism¹¹. We ask that you consider all of the stated priorities, as they are slated to provide underserved markets with equitable inclusion in the historic small business relief response.

Improving reporting on federal programs

The *CARES Act* and its subsequent supplemental legislation have deployed billions in relief aid. In its initial PPP guidance, regulators failed to create a transparency mechanism that would record loan recipients—a widely-pushed measure to ensure underserved small business participation. Instead, the agency released an optional demographic alternative in recently released loan forgiveness guidance. Despite well-intended action, underserved businesses remain lease served by the program.¹²

Data is a powerful tool, that when used correctly, can shape the world we live in.¹³ We at AEO utilize government-released data to create policy material for lawmakers to better serve their constituencies. Legislators must implement a transparency mechanism in SBA loan programs that includes a breakdown of loans by state, demographics, industry, and loan size.

We commend Ranking Member Cardin, Leader Schumer and Senators Shaheen, Brown and Manchin for their *Transparency and Oversight of COVID-19 Small Business Recover Assistance Act of 2020*, a bill that would place a mandatory daily and weekly reporting measure on SBA COVID-19 and disaster programs. We encourage the inclusion of this language in any broader package. This action will provide lawmakers and regulators with the metrics necessary to ensure the program is working in favor of all small businesses.

Enacting the Proposed Equity in COVID-19 Recovery Whitepaper

¹⁰ <https://assets.documentcloud.org/documents/20059055/final-final-cares-act.pdf>

¹¹ <https://irp-cdn.multiscreensite.com/5c77111b/files/uploaded/Page%2030%20Coalition%20letter%20to%20lawmakers.pdf>

¹² <https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-cares-act2-smallbusiness-2020.pdf>

¹³ <https://issues.org/esty-2/>

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Congressional relief efforts have helped millions of Main Street businesses weather the economic storm, but more must be done. We fully endorse the Cardin-Booker *Equity in COVID-19 Recovery* whitepaper. Among other actions, this proposal would make the SBA's 7(a) Community Advantage program permanent, create the Office of Emerging Markets at SBA to focus on capital access needs of underserved communities, and support government contracting for minority businesses.¹⁴

We urge Congress to consider these policies as it will place our country's most vulnerable businesses on the road to recovery.

Protecting the Community Reinvestment Act

In 1977 the Community Reinvestment Act (CRA) was passed by Congress to ensure banking institutions in low and moderate income (LMI) communities were meeting the needs of the neighborhoods they serve. The regulations governing the CRA program have gone largely unchanged for more than two decades. While there is general consensus to modernize this act, we believe that the Office of the Comptroller of the Currency's (OCC) recently released final rules¹⁵ would disincentivize investment in the communities that need it the most.

The final rules, set to go into operations later this year, reinforce structural flaws that remain consistent throughout many federal programs. Among many changes, the OCC released flawed evaluation measures for financial institutions, a limited retail lending test, and unclear language regarding test components.¹⁶ The opposition to this effort is well-stated, and we urge this Committee to ensure that regulatory changes amid the crisis would not harm underserved communities.

Conclusion

I want to thank you for your efforts on behalf of the millions of minority and women-owned businesses. Despite our country's current trials, I believe that we, with the help of our small businesses and entrepreneurs, will make it through these turbulent times.

AEO is grateful for this Committee's continued bipartisan support of small business relief amid the country's crises, and I appreciate the opportunity to testify today. I look forward to answering any questions.

¹⁴ https://www.sbc.senate.gov/public/_cache/files/9/0/90135abe-b624-478e-b638-4e3b4fd1dc67/B5DC0FBD2B8E5B404CAFBB855F9F51CE.-final-equity-in-covid-19-recovery-act-white-paper.pdf

¹⁵ <https://www.occ.treas.gov/news-issuances/federal-register/2020/nr-occ-2020-63a.pdf>

¹⁶ <https://ncrc.org/summary-fact-sheet-on-the-occs-final-cra-rule/>

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