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Provided to the Committee on Small Business

July 23, 2020

Good Morning Chairman Rubio, Ranking Member Cardin, and members of the Committee. It is my sincere honor to be speaking with you all today about the challenges that minority-owned businesses are facing in light of the COVID-19 Pandemic and how your decisions can positively impact their return, recovery, and rebuilding. My name is Marla Bilonick and I am the Executive Director and CEO of the Latino Economic Development Center-LEDC.

LEDC Background

LEDC is a 29-year old community development financial institution (CDFI) with the mission to drive the economic and social advancement of low-to moderate-income Latinos and other underserved communities in the D.C. and Baltimore Metropolitan Areas, as well as Puerto Rico, by equipping them with the skills and tools to achieve financial independence and become leaders in their communities. We operate out of 6 offices, with over 50 professional and bilingual staff providing top-notch, culturally competent services to our clients. On an annual basis we serve well over 5,000 low- to moderate-income residents. Scanning all of our programs, the majority of our clients are Latino (60%) and a sizeable portion are African-American/Black (30%). The remaining portions are White/Caucasian and Asian (10%, combined). Our core asset-building programs are: Housing Counseling, Affordable Housing Preservation; Small Business Capacity Building; and Small Business Lending. We are a SBA Microlending Intermediary, a SBA Community Advantage Lender, a USDA-designated Rural Lender, and certified Community Development Financial Institution (CDFI). LEDC receives support for our small business services from partners including the Small Business Administration, CDFI Fund (Treasury), private corporations, and philanthropic foundations.

Impact of COVID-19 on our Small Business Clients

Since we began lending in 1997, we have rolled out close to $20 million in capital in small business and consumer loans. We have forged close and longstanding relationships with the businesses in the communities we serve and to say they are struggling given the implications of COVID-19 would be a severe understatement. Our businesses are struggling to stay open, keep their employees on payroll, and work on their businesses while caring for children that are at home indefinitely. Business closures in the food and retail industries have crippled businesses and many of our clients will never reopen. In addition, given that we serve businesses in Washington, DC and the surrounding Maryland and Virginia suburbs; some of our clients were hit by fresh challenges that resulted from the civil unrest that has justly erupted in our nation due to the centuries-long parallel pandemic of racial injustice and inequality that plagues our country. These blows to businesses come at the grave cost of business owners' livelihoods and the livelihoods of the people they employ. The ripple effect on communities will be felt for months and years to come.

Observations on the Paycheck Protection Program

This year, we have led the charge in our region providing PPP loans to small businesses in the markets we serve. This was no easy feat, as we had to hustle to fundraise for the liquidity needed to make PPP loans on an extremely tight timeline; as well as aggressively assert our eligibility to Treasury and SBA to provide PPP as a certified Community Advantage Lender. An analysis of our PPP loans to date shows that 84% of our PPP loans went to minority-owned businesses and 62% of our overall PPP loans were distributed to women-owned businesses. 82% of all of our PPP loans were made to businesses in the following six industries: food, health, construction, consulting, cleaning, and child care.

To give you a sense of the demand for COVID-related assistance that we have seen---we have provided PPP loans to almost 100 small businesses since late April. For context, our organization typically provides around 200 small business loans per year. So, in just one quarter, we have done almost half of our traditional annual volume of loans with just this one product. We have also partnered with local governments to help deploy their small business COVID financial assistance products. For example, in partnership with the District of Columbia's government, we have provided $4.5 million dollars in microgrants to just over 1,100 businesses since April.

The impact of closures and resulting lost revenue on our small businesses cannot be underestimated. The need is unbelievably high, even just in our relatively small national footprint. Our staff has been working literally around the clock to serve as many businesses as we can humanly support. I would be remiss if I did not take this opportunity to say how inspired I have been to see my staff rise to the occasion and sacrifice sleep, meals, relaxation, and time with their families to be in service to our small business clients. I am certain that this level of dedication is mirrored by staff at CDFIs across the nation.

At the national level, the PPP program has not been as successful in reaching true "Mom and Pop" minority-owned community small businesses as it could be. I was very pleased to see the CDFI set aside that came into play during the second round of PPP funds in May. However, it does feel like engaging community-based CDFI's was an afterthought---which is puzzling when CDFIs have historically been the most highly-leveraged tool that commercial banks have used to reach the hardest-to-reach populations in the United States. Of the more than 5,400 PPP lenders, only 303 are CDFIs as of the SBA's July 20th PPP report. Yet, in under 3 months, those very CDFIs made a total of $7.4 billion dollars in PPP loans. I cannot recommend more strongly the importance of deliberately and thoughtfully engaging local CDFIs that already have deep reach and trust in underserved communities where they work on the ground every day.

Our average PPP loan made has been around $30,000 and our overall PPP efforts stand to retain 373 jobs to date. Had we been able to raise more capital during the PPP program period, we would have had sufficient liquidity to make an even more significant impact on the communities we are called to serve. As of July 20th, the nation's average PPP loan size was $105,000 and nearly 87% of all PPP loans were for less than $150,000. Community jobs are being preserved at relatively low loan amounts. Which is to say that the PPP program investment stands to have substantial impact if distributed properly and equitably.

It is extremely disheartening and disappointing to see high-wealth individuals with direct ties to the Trump Administration accepting PPP loans in the $350K-$5MM range. With the funds in just <u>one</u> of the PPP loans made to the likes of the Kushner family, Elaine Chao's family, or Kanye West, a CDFI like LEDC could have helped more than ten times the businesses we have been able to support to date, retaining at least 3,700 community jobs. This is a glaring example of the perpetuation of systemic inequality that has rightfully propelled our country into civil unrest in the past weeks. We are at a crossroads in our country and there is very little, if any, patience left for the practices that favor the 1% percent at the expense of the everyday American that is struggling to make a living. Frustrations will only intensify under the increasingly challenging times and economic pressures brought on by the pandemic.

Additional Considerations and Recommendations

In May, after the Inspector General's report that cited that "the SBA's failure to issue guidance to prioritize underserved and rural markets in the Paycheck Protection program 'did not fully align' with the Congressional intent of the CARES Act" Senators Cardin and Booker penned a white paper. The document contains practical suggestions for preventing underserved small businesses from falling even further behind than they already have due to the implications of COVID----disproportionate to the general small business population. Our organization stands behind the recommendations in this proposal, and we are particularly encouraged by:

- The recommendation to allocate $1 billion in emergency appropriations to the CDFI Fund to increase liquidity for CDFIs,
- The suggestion to create an Office of Emerging Markets that is specifically focused on and more attuned to the needs of underserved communities,
- Recommended support for the SBA's core programs (7a, Microloan, and 504) to expand them and make them more affordable,
- The suggestion to move SBA Community Advantage from pilot designation to permanent program status,
- Recommendations around expanded support for minority-owned, women-owned, and returning citizen-owned businesses.

The House of Representatives has taken an important first step by including $1 billion in grants to CDFIs in the HEROES Act — Congressional leaders on both sides of the aisle understand CDFIs are the lenders to reach the businesses that have been left out of PPP for the most part. The Senate and Administration must approve $1 billion in rapid response CDFI Fund grants.

I would also suggest the consideration of support for CDFIs that are, like many American businesses, also facing revenue losses. As we have worked to restructure and defer our clients' loan payments, we are forgoing interest income that at least partially covers our lending operations. We are grateful for the SBA's debt relief provisions, but our non-SBA loans are not accompanied by such relief and imply significant revenue losses in the short term.

While I am here and afforded the platform to suggest legislative improvements that could expand support for small businesses, I wanted to take the opportunity to mention the 1/55 rule. The 1/55 rule was authorized in the original statute establishing the SBA microloan program and requires that for the first two quarters of the fiscal years, funding to intermediaries is limited to the lower of $800,000 or 1/55 of new funds appropriated The purpose of this rule was to ensure the microloan program is generally available to all states and not concentrated in just a few.

Today, the Microloan program is widely available; there are 147 active intermediaries working in 49 states, the District of Colombia, and Puerto Rico. However, these organizations are in most cases unable to borrow additional loan fund the third or fourth quarter of the fiscal year. This creates an administrative bottleneck for the agency, cash availability and paperwork nightmare for intermediaries.

The last few President's budgets have proposed eliminating the 1/55th rule. Doing so will allow the SBA to more efficiently and effectively get funds to the intermediary lenders where and when the funds are needed. Striking 1/55 will not impede the funding opportunities for intermediaries, as the microloan statute also includes a provision requiring equitable distribution of funds.

Entrepreneurial Technical Assistance

In addition to financial resources, small businesses affected by the implications of COVID-19 require technical assistance to navigate their new reality. The majority of businesses we've provided PPP loans and/or access to local and state financial assistance have needed extensive support with preparing their applications and gathering the necessary documentation the applications require. They have also sought out support in the areas of legal advice (which includes commercial lease negotiation) accounting, and re-imagining their business for survival in this new time. We have helped countless clients with adding e-commerce, take-out, and delivery options into their business models.

It's worth noting that funding made available through the CARES Act restricts access to funding to provide entrepreneurial assistance primarily (80%) to SBA designated Small Business Development Centers (the vast majority of which are operated by universities and colleges) and a small portion (20%) to SBA designated Women's Business Centers. The legislation does not recognize that SBDCs and WBCs are <u>not</u> the only critical elements of our nation's infrastructure for providing entrepreneurial assistance and that, of the two programs, WBCs would be better suited to reach the needs of minority-owned businesses. Often, minority business owners are better served by community-based non-profits that focus on providing culturally and linguistically tailored entrepreneurial counseling to their specific target community.

The SBDC impact overview provided on their website indicates that only 28% of the clients served are "minority" of some kind. Channeling funding through intermediaries that have a proven track record of delivering these services to underserved entrepreneurs is a better conduit for getting resources to those hardest hit by the pandemic. If stimulus money needs to flow through the SBA budget, through an already established resource partner, then we suggest that they remember the category of SBA resource partners that were overlooked in the CARES Act: Intermediaries funded under the SBA PRIME Program Track 2 in the past four or five years. The total funding amount should be at least the same amount provided to Women's Business Centers in the original CARES Act.

Client Profiles

I will end with two client profiles that illustrate the impact of the pandemic on small businesses:

Little Angels Child Development is a Latina-owned day care center that has the capacity to serve seven families in Washington, DC. As of March 31, only three of their core clients have confirmed that they are considering staying in the day care program---subject to how the pandemic progresses in the area. As a result, they were not able to retain all of their employees. They sought a PPP loan from LEDC to keep their remaining employees on staff and continue to provide services to the three families that have stayed on. With the PPP loan the business owner was able to keep her staff on board, as well as re-hire those she had temporarily laid off.

Arepa Zone is a hugely successful minority/woman-owned business that started off selling frozen Venezuelan traditional foods door to door. From there, they launched a food truck and went on to win a pitch competition with the prize of a year of free rent at Union Market, a food hall in Washington, DC. They have sought several loans from LEDC which culminated in their opening a brick and mortar restaurant in Washington a few years ago. They've also since forged successful partnerships with Nationals' Park and the Audi (Soccer) Stadium in the District. During the pandemic they have struggled to stay afloat. But, their resourcefulness has kept them going. They partnered with World Central Kitchen to provide meals for local nonprofits, but that partnership is coming to a close. In a recent online plea to their loyal customer base they stated, "We want to keep our staff on board and provide as much stability for them as possible during this time...with a new surge in COVID cases, our business will continue to struggle. We are humbly asking for your support."

In Closing

While there are many stories that make the evening news around "unicorn" businesses that have turned the pandemic's "lemons" into "lemonade"---the distillery that is making hand sanitizer, or the t-shirt company that is making face masks...the truth is that the majority of small businesses are in trouble. I'm very grateful to this committee for considering my remarks and for the time and effort you dedicate to making sure America's small businesses survive and thrive during these unprecedented times.

Thank you so much for your time. I look forward to our discussion.