

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6515

Memorandum

To: Members, Committee on Small Business
From: Committee Staff
Date: March 12, 2018
Re: Field Hearing: “Disparities in Access to Capital: What the Federal Government Is Doing to Increase Support for Minority Owned Firms”

On Monday, March 12, 2018 at 10:00 a.m., the Committee on Small Business will meet at the Jacksonville Chamber of Commerce, 3 Independent Dr., Jacksonville, FL for the purpose of examining disparities in small business access to capital. Small businesses owners, particularly women and minorities, face unique challenges in accessing capital to grow and create new jobs. At a time when minority-owned businesses are growing at a faster pace, they still secure financing at lower levels than many other businesses. Without adequate access to capital, whether microloans, commercial lending, or investment capital, small minority firms cannot compete for government contracts, grow their business, or create jobs in their local communities. The hearing will focus on the challenges they face with Small Business Administration (SBA) lending programs, traditional bank loans, private investment capital, and other alternative financing.

I. Introduction

With over 29 million small businesses operating in the United States, the nation’s smallest firms play an outsized role in the American economy.¹ Not only do they employ nearly half of the private sector workforce in the country,² but they are also responsible for creating almost two out of every three new private sector jobs.³ With the recent signing of the Tax Cuts and Jobs Act⁴ into law, small businesses are reporting growing optimism.⁵

However, despite increased confidence scores, the lending environment continues to be challenging for small businesses. According to a recent report by the SBA Office of Advocacy, small business lending decreased significantly during the Great Recession and has remained

¹ SBA OFFICE OF ADVOCACY, SMALL BUSINESS PROFILE (2017), available at https://www.sba.gov/sites/default/files/advocacy/United_States_1.pdf.

² *Id.*

³ SBA OFFICE OF ADVOCACY, FREQUENTLY ASKED QUESTIONS (2017), available at https://www.sba.gov/sites/default/files/advocacy/SB-FAQ-2017-WEB.pdf?utm_medium=email&utm_source=govdelivery.

⁴ Pub. L. No. 115-97 (2017).

⁵ NATIONAL FEDERATION OF INDEPENDENT BUSINESS: JANUARY 2018 REPORT: SMALL BUSINESS OPTIMISM INDEX (2018), available at <https://www.nfib.com/surveys/small-business-economic-trends/>.

depressed compared to pre-recession levels.⁶ The Great Recession occurred between December 2007 and the summer of 2009 and was a result of a mortgage default crisis that sparked a financial crisis.⁷ In an attempt to bring safety and soundness to the banking industry, Congress enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank).⁸ Although Congress did not intend to levy additional regulatory burdens on small financial institutions that were not instrumental players in the financial crisis, heightened oversight of larger banks caused a “trickle-down effect”⁹ on community banks and credit unions.

While large corporations regularly finance their job creation and expansion plans through debt and equity markets, small businesses traditionally utilize conventional bank borrowing to finance their projects. Local community banks and local credit unions that specialize in relationship banking are critical components of access to capital for small businesses across the nation. For example, although community banks hold only 13 percent of total industry assets, they make up more than 50 percent of all small business loans.¹⁰ A 2017 survey by the United States Chamber of Commerce found while 40 percent of small business executives would like to increase capital investments, 53 percent of small business executives report that access to affordable credit has not improved in the past year.¹¹ Therefore, financial regulations that impact community banks and credit unions can have an everlasting impact on how small businesses acquire capital.

II. Small Business Access to Capital by Market Segment

While almost all small business owners report that access to capital is a larger issue since the Great Recession, certain small business owners have particularly struggled. First, firm age has a pronounced effect on the ability of a small business to obtain credit. According to the Federal Reserve Small Business Credit Survey, while 39 percent of mature small businesses report difficulty accessing credit, 53 percent of 3 to 5 year old firms and 58 percent of small businesses less than 2 years old report credit access issues.¹² The SBA Office of Advocacy found similar results, reporting that smaller and younger businesses tended to have more difficulty acquiring capital from banks.¹³

⁶ REBEL A. COLE, KRAHENBUHL GLOBAL CONSULTING, SBA, OFFICE OF ADVOCACY, HOW DID BANK LENDING TO SMALL BUSINESS IN THE UNITED STATES FAIR AFTER THE FINANCIAL CRISIS? 26 (2018).

⁷ ROBERT RICH, FEDERAL RESERVE BANK OF NEW YORK, THE GREAT RECESSION, FEDERAL RESERVE HISTORY (2013), available at https://www.federalreservehistory.org/essays/great_recession_of_200709.

⁸ Pub. L. No. 111-203 (2010).

⁹ FEDERAL RESERVE BANK OF DALLAS, ON THE RECORD: DODD-FRANK: TOWARD GREATER FINANCIAL SYSTEM STABILITY: A CONVERSATION WITH ROBERT D. HANKINS, SOUTHWEST ECONOMY 9 (2011).

¹⁰ FEDERAL DEPOSIT INSURANCE CORPORATION, FDIC COMMUNITY BANKING STUDY 1 (2012), available at <https://www.fdic.gov/regulations/resources/cbi/report/cbsi-execsumm.pdf>.

¹¹ U.S. CHAMBER OF COMMERCE FOUNDATION, CENTER FOR CAPITAL MARKETS AND COMPETITIVENESS, KEY POINTS FROM FINANCIAL SERVICES SURVEY (2017), available at <http://www.centerforcapitalmarkets.com/wp-content/uploads/2013/08/Financial-Services-Survey-For-Small-Businesses-Growth-and-Credit-Go-Hand-in-Hand.pdf?x48633>.

¹² FEDERAL RESERVE BANK OF NEW YORK, SMALL BUSINESS CREDIT SURVEY 6 (2017), available at <https://www.newyorkfed.org/medialibrary/media/smallbusiness/2016/SBCS-Report-StartupFirms-2016.pdf>.

¹³ ALICIA ROBB, SMALL BUSINESS OFFICE OF ADVOCACY, ACCESS TO CAPITAL AMONG YOUNG FIRMS, MINORITY-OWNED FIRMS, WOMEN-OWNED FIRMS, AND HIGH-TECH FIRMS 8 (2013) available at [https://www.sba.gov/sites/default/files/files/rs403tot\(2\).pdf](https://www.sba.gov/sites/default/files/files/rs403tot(2).pdf).

Many women-owned businesses report difficulty accessing capital from traditional sources. According to a report by the SBA Office of Advocacy, 9.9 percent of surveyed women business owners applied for a new loan application in 2007, but that number decreased to 8 percent by 2010.¹⁴ The number of women business owners who reported that they were “always approved” for new loans decreased from 74.2 percent in 2007 to 59.5 percent in 2010.¹⁵ Conversely, male business owners who reported they were “always approved” only decreased from 70 percent in 2007 to 63 percent in 2010.¹⁶

Minority-owned small business also have reported more difficulty acquiring capital since the Great Recession. For example, research by the Kauffman Foundation showed that African-American entrepreneurs are almost three times more likely than white business owners to have profits negatively impacted by access to capital.¹⁷ While 47 percent of white small business owners surveyed reported hesitance about applying for additional capital because they thought they would be denied, 59 percent of African American small business owners and 60 percent of Native Hawaiian and Pacific Islanders reported a similar hesitance.¹⁸

III. Conclusion

Small businesses across a variety of demographics and industries report that access to capital has been a growing concern since the Great Recession. Small business lending levels remain depressed relative to lending statistics from before the financial crisis. While lending decreased across the board, younger and smaller firms reported access to capital as a greater issue than older and larger businesses. Also, women-owned and minority-owned small businesses report increased difficulty acquiring capital relative to other small businesses.

This hearing will be an opportunity for Members to hear directly from small business owners regarding the small business credit landscape, how SBA programs and resources impact their businesses, and how the federal government can help reduce burdens to help them succeed.

¹⁴ *Id.* at 13.

¹⁵ *Id.*

¹⁶ *Id.*

¹⁷ KAUFFMAN FOUNDATION, STATE OF ENTREPRENEURSHIP 2017, ZERO BARRIERS: THREE MEGA TRENDS SHAPING THE FUTURE OF ENTREPRENEURSHIP 17 (2017), available at <https://www.kauffman.org/what-we-do/resources/state-of-entrepreneurship-addresses/2017-state-of-entrepreneurship-address>.

¹⁸ *Id.* at 16.