



October 12, 2021

The Honorable Nydia Velazquez  
Chairwoman  
House Committee on Small Business  
United States House of Representatives  
Washington, D.C. 20015

Dear Chairwoman Velazquez:

On behalf of the members of the National Bankers Association (NBA), I write to express our support for the Small Business Administration (SBA) programmatic changes included in the House budget reconciliation bill. We believe the proposal is a positive change in direction for lending to minority and disadvantaged small businesses as well as chart a path for more participation by minority-owned banks (MDIs).

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.

An average of 70 percent of minorities do not have a bank branch in their neighborhood, coupled with 94 percent of Black small businesses are sole proprietors that are typically unbanked or underbanked. Given the challenges faced by small businesses, especially minority-owned small businesses, it is imperative to assess which type of banks are best placed to provide access to capital for minority communities. To this end, national banks may not be fastest in reaching this constituency.

Minority-owned small businesses are the lifeblood of their communities. 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 Banks reported that minority-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.

Traditionally, MDIs and Community Development Financial Institutions (CDFIs) can be economic development engines due to their relative concentration in minority and low-income communities and established relationships, especially in African American communities. Unfortunately, MDIs small scale does not allow them to move fast enough, especially in times like these. With African Americans overrepresented by the health and economic crisis, but potentially underrepresented by the relief efforts, a more customize solution is required. The current House language seeks to address some of these disparities by expanding MDIs and CDFIs participation in SBA direct lending programs and creating new products that we believe could be transformational for small businesses and minority-owned banks. The NBA supports these measures and urge the Congress to adopt them as soon as possible. We do, however, believe there are additional measures that could further enhance assistance to minority small businesses and lending institutions the Congress and SBA should consider in the context of the reconciliation bill.

First, we believe there should be an Office of MDI Affairs established at the SBA. The MDI Office should focus on further integrating our institutions into the outreach and servicing of minority small businesses across the country. A critical component of this office is a mandate for the SBA to preserve and promote minority depository institutions by:

- i. preserving the number of MDIs;
- ii. providing technical assistance to ensure maximum efficiency in program implementation; and
- iii. promoting and encouraging the creation of new MDI partnerships. This is very similar to requirements that bank regulatory agencies currently comply with and will ensure that MDIs partner effectively with the SBA.

Second, we believe the SBA should be given authorization to proactively lower any administrative barriers to MDI participation across all SBA loan programs. To the extent that there are any administrative barriers to participation that have historically limited MDI participation in SBA lending programs – such as the requirement for certain programs that lenders originate a minimum number of loans – that do require Congressional action, we urge the inclusion of language that allows the SBA to proactively identify and eliminate those barriers to participation as soon as practicable. African American borrowers as a share of all 7(a) and 504 program lending in 2016, for example, only accounted for 2 percent of the lending activity in flagship SBA programs with Latino borrowers only fairing slightly better. This is despite MDIs having an established track record of higher rates of small business and SBA lending to diverse entrepreneurs and a willingness to do larger SBA loans to diverse entrepreneurs relative to non-MDIs. 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 has the ability to fully participate in every SBA program. Affirmative steps would include:

- goals for diverse entrepreneur participation in SBA programs;

- targeted efforts to ensure that MDIs are delivery channels for diverse entrepreneurs such as creating an MDI Coordinator within the SBA's Office of Advocacy similar to federal banking regulators' MDI-specific liaisons;
- adequately compensating lenders for program participation by establishing a reasonable rate floor; and
- increasing the number of MDIs in the SBIC and Preferred Lender programs.

We have an opportunity to reverse decades of targeted economic redlining and allow communities to rebuild if the necessary steps are taken now to provide LMI communities the help they need. Providing MDIs with the opportunity to do the job they were created to perform is vital if our efforts are to ensure that every community in the country can take part in our nation's post COVID-19 economic recovery, thus benefiting the economy as a whole. 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.

Sincerely,



Nicole A. Elam  
President and CEO  
National Bankers Association