

## The Agenda for America's Economic Future: Access to Capital



Small Business Majority has created an economic blueprint that will strengthen our economy, create jobs and solidify its base, small businesses. The recommendations range from action on healthcare, tax policy, access to capital, infrastructure and economic development, workforce and retirement, entrepreneurship and the freelance economy and immigration, and are all tied to creating economic opportunities for small businesses and entrepreneurs.

Despite the importance of small businesses to our economy, small business owners—particularly women, minorities and other underserved populations—face significant hurdles accessing capital. New alternative and online lending opportunities have sprung up to fill this market need, which is a potentially positive development for small businesses. However, alternative sources of financing operate in an almost entirely unregulated market—making many small business owners vulnerable to predatory practices. To fully realize the economic potential of small businesses, we must ensure greater access and more options for entrepreneurs to obtain responsible capital by:

- Maintaining and expanding Small Business Administration (SBA) lending, counseling and procurement programs. This must also include providing small businesses, particularly minority businesses, with increased opportunities to participate in SBA loan programs and small business development center programs.
- Maintaining and expanding the Community Development Financial Institutions (CDFI) Fund.
- Supporting innovations like crowdfunding and other non-bank, non-VC sources of capital while ensuring safeguards that make sense for both small business owners and investors.
- Strengthening protections on non-bank sources of capital. Small business owners struggling to access financing can now go online and find no-credit or bad-credit loans almost instantly, sometimes with disastrous results, as these loans typically carry with them high interest rates and a lack of transparency regarding loan terms. We must do everything we can to protect small businesses who need financing by considering additional measures, such as:
  - Promoting responsible lending practices by lenders and brokers as set forth in the [Small Business Borrowers' Bill of Rights](#).<sup>1</sup>
  - Promoting laws governing business lending that require: (1) transparency, (2) non-abusive products, (3) responsible underwriting, (4) fair treatment from brokers, (5) nondiscrimination, (6) fair debt collection practices and (7) accurate credit reporting.
  - Passing legislation extending Truth in Lending Act disclosure requirements to small business loans or credit products of \$100,000 or less.
  - Identifying state and federal agencies that can promulgate non-bank small business lending regulations under existing law.
- Enacting policies to strengthen and expand community bank lending, which provides more than half of all small business lending. Community banks approved 60% of small business loans [in 2016](#)—compared to a 45% success rate with large banks. Small business owners also report much greater satisfaction in working with community banks and credit unions than large banks and

<sup>1</sup> Small Business Borrowers' Bill of Rights, Responsible Business Lending Coalition, <http://www.borrowersbillofrights.org/>

online lenders.<sup>2</sup> This is likely because these local institutions typically offer lower underwriting fees, offer more personalized benefits and employ a loan application process that also takes into account the business' relationship with the community it serves. Smart initiatives include the following:

- Reducing regulations on small, community banks enacted under Dodd-Frank that were primarily intended for larger financial institutions. Any proposal to lift requirements for community banks, however, must ensure that regulations for larger banks are kept in place in order to prevent another financial collapse. One proposal that should be considered is to exempt institutions with less than \$10 billion in assets.
  - Supporting legislation to authorize tax-preferred "Small Business Start-up Savings Accounts," which would help pay for trade or business expenses, including the purchase of equipment or facilities, marketing, training, incorporation and accounting fees. These accounts should also allow for annual, nondeductible contributions of up to \$10,000, subject to a \$150,000 limit on total contributions to the account and adjustments for inflation.
  - Supporting legislation to extend federal tax deductions for entrepreneurs in their first year of business. This would include increasing the maximum deduction amount for start-up and organizational expenditures to C-corporations and pass-through entities from \$5,000 to \$20,000, and increasing the deduction's phase-out threshold from \$50,000 to \$120,000.
- Ensuring women and minority entrepreneurs get fair access to capital. Research shows women and entrepreneurs of color struggle more to access credit and gain access to mentoring and networking opportunities. For example, women [account for only 16%](#) of conventional small business loans and 17% of SBA loans even though they represent 30% of all small companies.<sup>3</sup> Similarly, African-American businesses received 2.3% of SBA loans in 2013, down from 11% in 2008.<sup>4</sup> We believe the following initiatives should be considered:
    - Reauthorizing the State Small Business Credit Initiative (SSBCI), which from a \$1.5 billion initial investment successfully funded new and existing state programs that supported more than \$10.7 billion in lending to and investment in small businesses.
    - Making permanent the New Markets Tax Credit (NMTC), which has helped to attract more than \$60 billion in private sector funding to build businesses in economically-distressed communities and for minority entrepreneurs across the United States. NMTC encourages equity investments into businesses that are less likely to qualify for financing, including women and minority-owned businesses.
    - Supporting the bipartisan Microloan Modernization Act of 2017 to expand the SBA's Microloan Program, which provides loans and technical assistance to women and minority business owners. This bill would raise the total limit on outstanding loans to third-party lending institutions, allowing for more loans to be made to women and minority business owners, while also offering more technical assistance to small business owners.
  - Improving data sharing between the IRS and online lenders in order to speed up the loan approval process and give lenders a safer and faster sense of a business owner's creditworthiness to help entrepreneurs potentially lock in better loan interest rates.
  - Making permanent the fee waiver on SBA-backed loans under \$150,000.
  - Increasing the artificial lending cap for credit unions from 12.25% to 27.5% of assets.
  - Supporting the legal requirement that the Consumer Financial Protection Bureau (CFPB) collect small business lending data.

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<sup>2</sup> 2016 Small Business Credit Survey Report on Employer Firms, Federal Reserve Bank of New York, April 2017, <https://www.newyorkfed.org/medialibrary/media/smallbusiness/2016/SBCS-Report-EmployerFirms-2016.pdf>

<sup>3</sup> Why Women Entrepreneurs Aren't Getting Funded and What We Can Do to Change This, Fundera, December 19, 2016, <https://www.fundera.com/blog/women-entrepreneurs-arent-getting-funded>

<sup>4</sup> Loan Rebound Misses Black Businesses, Ruth Simon and Tom McGinty, Wall Street Journal, March 14, 2014, <http://www.pfccoalition.org/Study/SBA%20Loans%20-%20Difficult%20for%20Blacks.pdf>