



March 28, 2023

Hon. Daniel Meuser, Chairman  
Subcommittee on Economic Growth, Tax, and Capital Access  
House Committee on Small Business  
2069 Rayburn House Office Building  
Washington, DC 20515

Hon. Greg Landsman, Ranking Member  
Subcommittee on Economic Growth, Tax, and Capital Access  
House Committee on Small Business  
2361 Rayburn House Office Building  
Washington, DC 20515

Dear Chairman Meuser and Ranking Member Landsman,

On behalf of the Center for Responsible Lending (CRL),<sup>1</sup> the National Association for Latino Community Asset Builders (NALCAB),<sup>2</sup> and the National Coalition for Asian Pacific American Community Development (National CAPACD),<sup>3</sup> thank you for the opportunity to submit this letter for the record on the Subcommittee on Economic Growth's hearing entitled, "The End of Relationship Banking? Examining the CFPB's Small Business Lending Data Collection Rule." We firmly believe that the Consumer Financial Protection Bureau's (CFPB) final Section 1071 regulation will improve relationship banking by creating a robust and comprehensive data collection regime that helps ensure that small business lending is fair and accessible to entrepreneurs from all communities in the United States.

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<sup>1</sup> CRL is a non-profit, non-partisan research and policy organization that works to ensure a fair, inclusive financial marketplace. CRL's work focuses on those who may be marginalized or underserved by the existing financial marketplace -- people who often are targeted for unfair and abusive financial products that leave them worse off. Our affiliate, Self-Help Federal Credit Union ("Self-Help"), a Community Development Financial Institution and SBA lender, was an active Paycheck Protection Program ("PPP") lender throughout the entire program, with 65 percent of its PPP loans going to small businesses or nonprofits led by people of color. Through its Small Business Administration (SBA) lending programs and PPP advocacy, both Self-Help and CRL have had firsthand experience witnessing the barriers to entrepreneurship faced by people of color.

<sup>2</sup> NALCAB - The National Association for Latino Community Asset Builders is the hub of a national network of asset building community development organizations including more than 50 certified CDFIs. Members of the NALCAB Network invest in their communities by building affordable housing, addressing gentrification, supporting small business growth, and providing financial counseling on issues such as credit building and homeownership. Many of the people served by the NALCAB Network are low- to moderate-income individuals who are immigrants, or the children of immigrants.

<sup>3</sup> National CAPACD, The National Coalition for Asian Pacific American Community Development is a coalition of more than 100 member organizations with a mission to build a powerful coalition of Asian American, Native Hawaiian, and Pacific Islander (AANHPI) community-based organizations working with low-income populations. We utilize a comprehensive set of community development strategies from community organizing to development to advance equity and create vibrant, healthy communities. National CAPACD member organizations employ a diverse set of strategies tailored to meeting local community needs, including: the creation and acquisition of affordable housing & community institutions, assistance for renters and homeowners, services for financial capability and empowerment, community organizing, workforce development, and small business sustainability and entrepreneurship.

## **1. Our Nation has a Vested Interest in Ensuring that Small Business Capital is Both Fair and Accessible to Entrepreneurs from All Communities.**

In addition to creating two-thirds of all net new jobs in the United States, small businesses account for 43.5 percent of the nation's gross domestic product.<sup>4</sup> And, next to owning a home, business equity is the second-largest source of personal wealth in the United States. Small business ownership is the backbone of America's economy and the key to maintaining a strong middle class. Ensuring that small businesses have the capital they need to grow is a matter of national importance that has previously garnered bipartisan support. However, accessing capital remains a problem for too many small business owners, with accessibility gaps driven by several factors—including the age of the business, the size of the loan, the business's location, and the race or gender of the business owner.<sup>5</sup>

The absence of reliable lending data has obscured the full scope of challenges small businesses face in securing the capital they need to sustain and scale their entrepreneurial efforts. Data on the availability of affordable credit based on the type and location of businesses can help policymakers and lenders develop targeted programs to address inequities in access and ensure that small businesses can obtain the capital they need to realize their full potential. The absence of data has been particularly challenging in addressing capital disparities for businesses operated by individuals from traditionally underserved communities.<sup>6</sup>

## **2. The Fastest-Growing Small Businesses in the United States, Minority-Owned Firms, are Experiencing Significant Challenges Accessing Capital from the Financial Marketplace.**

The number of minority-owned small businesses continues to grow at a faster rate than their non-minority counterparts. Over a recent ten-year period, minority-owned small businesses grew by 79 percent—around 10 times faster than the average growth rate for all small businesses.<sup>7</sup>

Yet, research shows that entrepreneurs of color have difficulty securing the capital necessary to start and grow a business. Recent surveys by a consortium of Federal Reserve Banks consistently found significant disparities in the ability of white-owned businesses and businesses owned by people of color to obtain credit. The 2021 Federal Reserve Small Business Credit survey found that Latino-owned firms received capital at just 50 percent the rate of white-owned firms; black-owned firms obtained financing at one-third the rate of white-owned firms.<sup>8</sup> A 2019 report by National CAPACD, *Small Business, Big Dreams: A Survey of Economic Development Organizations and Their Small Business Clients in Low-Income Asian American and Pacific Islander Communities*, also found that many Asian American, Native Hawaiian, and Pacific Islander (AANHPI) micro-entrepreneurs experience significant challenges in securing capital from mainstream U.S. financial institutions for reasons including individual credit profiles (28% of survey respondents), difficulty in navigating the loan application process (20% of survey

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<sup>4</sup> [What's New with Small Business – SBA's Office of Advocacy](#)

<sup>5</sup> Bipartisan Policy Center, “*Small Agency, Big Mandate: A Bipartisan Road Map to Modernizing SBA*,” available at <https://bipartisanpolicy.org/report/modernizing-sba/>.

<sup>6</sup> For more information on the extensive barriers to capital impeding entrepreneurship, see our organizations' 1071 comment letter, <https://www.responsiblelending.org/research-publication/comment-cfpb-broad-coalition-urges-robust-data-reporting-requirements-small>

<sup>7</sup> Emergent Research, “*Number of Minority Owned U.S. Small Businesses Growing Rapidly*,” available at <https://www.smallbizlabs.com/2017/10/number-of-minority-owned-us-small-businesses-growing-rapidly.html#:~:text=According%20to%20research%20from%20The.by%2079%25%20reaching%2011.1%20million>

<sup>8</sup> Federal Reserve Banks, *Small Business Credit Survey: 2021 Report on Firms Owned by People of Color*, <https://www.fedsmallbusiness.org/medialibrary/FedSmallBusiness/files/2021/sbcs-report-on-firms-owned-by-people-of-color>

respondents), linguistic barriers (18%), and lack of knowledge regarding capital availability (17%).<sup>9</sup> AANHPI business owners have a great need for trusted resources that can provide culturally competent, one-on-one technical assistance and business counseling.

Improving capital access for minority-owned businesses will strengthen the nation's economy, create jobs, and build a robust middle class. Research by the Alliance for Entrepreneurial Equity Alliance estimates that if the number of Latino-owned businesses were proportionate to the population of the largest-growing ethnic group in the United States, there would be an additional 800,000 firms, creating 7.5 million more jobs and adding \$1.2 trillion in economic activity.<sup>10</sup> Similarly, Citigroup estimates that fairer access to small business loans would enable African American entrepreneurs to add \$13 trillion in revenue and create 6 million jobs over a twenty-year time period.<sup>11</sup>

We believe that a robust 1071 rule will spur entrepreneurship in communities that traditionally have lacked sufficient access to capital and lead to increased economic growth and an expanded pathway to economic prosperity for more Americans.

### **3. Increased Transparency in the Small Business Lending Market Will Produce Greater Institutional Accountability and Expand Access to Capital.**

Section 1071 of the Dodd-Frank Act was designed to collect data “to facilitate enforcement of fair lending laws and enable communities, governmental entities, and creditors to identify business and community development needs and opportunities of women-owned, minority-owned, and small businesses.”<sup>12</sup> In enacting the provision, the federal government correctly surmised that increased transparency would encourage lenders to demonstrate greater accountability in equitably providing capital to all communities while allowing regulators to focus their scrutiny on those market participants demonstrating bad behavior.

While some industry groups have sought to exempt a sizable share of small business lenders from 1071 data collection and reporting requirements or to weaken the rule's requirements, their argument is inconsistent with the nation's need to stimulate economic growth by improving capital access while simultaneously focusing the government's limited resources on developing narrowly tailored policy solutions that improve the market. History has shown that increased transparency in the financial markets improves lender self-accountability and leads to more accurate legislative and regulatory analysis of the problems and solutions to increasing access. A similar data collection requirement under the 1989 Home Mortgage Disclosure Act (HMDA) has confirmed that improved transparency results in expanded responsible loans for underserved communities. Shortly after implementing the HMDA requirement, conventional home mortgage lending to African Americans and Hispanics increased by 70 percent and 48 percent, respectively.<sup>13</sup>

### **4. The CFPB's Final 1071 Small Business Lending Data Collection Rule Reflects Extensive Analysis and Stakeholder Engagement.**

The final small business lending data collection rule will be the result of years of research, engagement, supervisory work, and policy development by the CFPB. For example, in 2017, the CFPB convened a public field hearing on the topic, issued a Request for Information, and published a white paper on the key

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<sup>9</sup> [National CAPACD Small Business, Big Dreams - National CAPACD](#)

<sup>10</sup> [Entrepreneurial-Inequity-in-America-20220426.pdf \(imgix.net\)](#)

<sup>11</sup> [minority-depository-institutions-brochure.pdf \(citigroup.com\)](#)

<sup>12</sup> Office of the Federal Register, National Archives and Records Administration. 124 Stat. § 1071(a).

<https://www.govinfo.gov/content/pkg/PLAW-111publ203/pdf/PLAW-111publ203.pdf>

<sup>13</sup> [Fact Sheet on Section 1071 Small Business Loan Data » NCRC](#)

dimensions of the small business lending landscape. The CFPB also continued to engage stakeholders on the issue in 2019 by holding a symposium on small business lending. In 2020, per the Small Business Regulatory Enforcement Fairness Act, the CFPB published an outline of proposals, convened a Small Business Review Panel to gather input on proposals under consideration, and released a report summarizing the panel's input and recommendations. The CFPB also solicited feedback from the general public on the outline of proposals and received nearly 60 comments before releasing its proposed rulemaking.

Because the CFPB consulted with small business advocates, business leaders, civil rights groups, and financial institutions—big and small— to create a final rule that maximizes transparency while also minimizing lenders' regulatory burden and costs, this Committee should have confidence that the final regulation fulfills Congress's intent in establishing Section 1071. The undersigned organizations urge committee members to recognize that, despite some initial investments and ongoing costs required of financial institutions, Section 1071's benefits to the small business lending marketplace and our nation's economy outweigh its costs.

### **Conclusion**

Policymakers and lenders need comprehensive small business lending data to develop targeted programs to address inequities in access and ensure that small businesses can obtain the capital support they need to realize their full economic potential. Given the significant benefits of small business lending data collection, it is essential that the members of this committee and all stakeholders allow the CFPB's final 1071 rulemaking to proceed without any additional delay.

Sincerely,

The Center for Responsible Lending

National Association for Latino Community Asset Builders (NALCAB)

National Coalition for Asian Pacific American Community Development (National CAPACD)

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