

September 14, 2017

Ms. Monica Jackson
Office of the Executive Secretary
Consumer Financial Protection Bureau
1700 G Street, NW
Washington, DC 20552

RE: Request for Information Regarding the Small Business Market, Docket No. CFPB-2017-0011

The undersigned organizations are writing to support the implementation of a strong rule pursuant to Section 1071 of the Dodd Frank Act. The need for data on lending to small businesses, women-owned businesses, and minority-owned businesses is imperative. The Consumer Financial Protection Bureau's (CFPB) own research demonstrates there is little comprehensive data about the types of credit access challenges these small, women-owned and minority-owned businesses face. For example, basic information on how many such businesses are applying for loans and how many, or which ones, are being denied simply is not publicly available.¹ Small businesses, women-owned businesses, and minority-owned businesses play a vital role in the U.S. economy, but difficulties in accessing credit constrain their job creation potential.

A Lack of Sustainable Credit Access Limits the Full Potential of the Nation's Small, Women-owned and Minority-owned Businesses

Small businesses employ about half of the workers in the private sector and have created about two thirds of jobs since 1993.² Studies show that access to credit enables small businesses to expand and employ more workers.³ Data from the 2012 Census Survey of Business Owners shows approximately 9.9 million women-owned businesses of any size in the United States.

¹ CFPB, "Key Dimensions of the Small Business Lending Landscape", May 2017, available at http://files.consumerfinance.gov/f/documents/201705_cfpb_Key-Dimensions-Small-Business-Lending-Landscape.pdf

² JPMorgan Chase Institute, The Ups and Downs of Small Business Employment (January 2017), available at <https://www.jpmorganchase.com/corporate/institute/report-small-business-payroll.htm>, U.S. Small Business Administration, Frequently Asked Questions, March 2014, available via https://www.sba.gov/sites/default/files/FAQ_March_2014_0.pdf

³ Luz Gomez and Elaine L. Edgcomb, FIELD at the Aspen Institute, A Newly Crowded Marketplace: How For Profit Lenders are Serving Microentrepreneurs, 2011, available at <http://fieldus.org/publications/ForProfitLenders.pdf>

Women-owned businesses increased 26.8 percent from 2007.⁴ Yet, women-owned businesses remain small, in part due to difficulties accessing credit. Ninety percent of women-owned small businesses have no employees other than the owner. Additionally, if minorities owned businesses at the same rate as non-minorities, the nation would have 1 million additional businesses and more than 9.5 million additional loans.⁵

The Limited Anecdotal and Survey Data Reveal The Challenges Women-Owned and Minority-Owned Businesses Face, Including on Loan Terms & Pricing

Research shows that women-owned businesses experience significantly lower approval rates, higher costs, and lower dollar amounts than their male-owned counterparts. Only five percent of women entrepreneurs receive loans to start their businesses as opposed to 11 percent of male entrepreneurs.⁶ For SBA loans, women receive 2.5 times less money than men do: on average, women receive \$59,857 while men receive \$156,279.⁷ Loan pricing also disadvantages women-owned businesses. On average, women pay 6.4 percentage points and 5.4 percentage points more in interest rates for personal loans and short-term loans, respectively, compared to male entrepreneurs.⁸ However, comprehensive data to truly understand these disparities is unavailable, which limits the ability of policymakers, regulators, and the public to develop appropriate responses.

Thirty percent of black business owners reported receiving less than the dollar loan amount requested compared to just 12 percent of white business owners.⁹ Further, survey results show that 28 percent of minority business owners were always approved, while 67 percent of white business owners were.¹⁰ It is clear from the available data that lending disparities exist for minority-owned businesses, but without better information from lenders, it is difficult to identify where opportunities to improve may exist, to properly enforce fair lending laws, or to ensure fair access.

⁴ CFPB, “Key Dimensions of Small Businesses Lending” p. 12, May 2017.

⁵ Kauffman Foundation, State of Entrepreneurship 2017: Zero Barriers – Three Mega Trends Shaping the Future of Entrepreneurship, http://www.kauffman.org/~media/kauffman_org/resources/2017/state_of_entrepreneurship_address_report_2017.pdf

⁶ National Women’s Business Council – Problem: Women Entrepreneurs Need Greater Access to Capital, <https://www.nwbc.gov/sites/default/files/Access%20to%20Capital%20Fact%20Sheet.pdf>

⁷ Jared Hecht, State of Small Business Lending: Spotlight on Women Entrepreneurs, May 2017, <https://www.fundera.com/blog/the-state-of-online-small-business-lending-q2-2016>

⁸ Ibid.

⁹ Association for Enterprise Opportunity, The Tapestry of Black Business Ownership in America: Untapped Opportunities for Success, February 2017, 25, available via http://www.aeoworks.org/images/uploads/fact_sheets/AEO_Black_Owned_Business_Report_02_16_17_FOR_WE_B.pdf

¹⁰ Alicia Robb, Marin Consulting, LLC, Access to Capital among Young Firms, Minority-owned Firms, and High-tech Firms, for the Small Business Administration, April 2013, page 13.

The Final Rule Must Capture More Information About Nonbank and Alternative Lenders Gaining Market Shares in the Small Business Lending Market

Due to barriers in the traditional lending market, many small businesses, women-owned businesses, and minority-owned businesses have had to turn to alternative and often predatory financing. Ten of the largest banks issuing small loans lent 38 percent less to small businesses between 2006 and 2015.¹¹ Many different types of supplier and equipment financing, as well as various other products, also characterize the small business lending market. Some business owners have turned to using credit cards from big banks for their spending, with rates that average around 12.85 percent in comparison to the 5 or 6 percent that is traditional for small business loans. Small businesses credit card spending rose by \$215 billion between 2006 and 2015.¹²

The Final Rule Should Ensure Broad Coverage of Lenders, Products, and Terms

In order to get an accurate picture of the small business lending marketplace, it is key that the final rule include all the types of financial institutions lending to small businesses and an appropriate asset-size threshold that captures data from the majority of lenders and allows analysis at a local, community level. Otherwise a significant amount of lending in the market will not be understood, making it difficult for policymakers and stakeholders to craft interventions and respond to credit needs. Currently, one of the most expansive data collections on small business lending is collected pursuant to the Community Reinvestment Act (CRA). However, only banks with assets of over \$1 billion are required to report data on small business loans. Non-reporting banks below the threshold, however, make up approximately one-third of all loans by dollar volume.¹³ CRA only captures limited data about small business loans made by depositories; non-banks, including online market place lenders and credit unions, are not required to report.

Robust data points are essential to fully understand existing disparities in credit access. CRA data captures whether a loan was originated, for example, but does not include the dollar amount applied for, information about loan approvals or denials, or data regarding different loan types and purposes. Therefore, policymakers, researchers, nor the public are able to determine the level of demand for loans of different types and purposes, and whether small businesses are receiving responsible and affordable loans.

¹¹ Ruth Simon, “Big Banks Cut Back on Loans to Small Business” *The Wall Street Journal*; citing PayNet studies on Small Business Lending, available at <https://www.wsj.com/articles/big-banks-cut-back-on-small-business-1448586637>

¹² Ibid.

¹³ “Patterns of Disparity: Small Business Lending in the Chicago and Los Angeles-Sand Diego Regions”, Woodstock Institute, p. 27, January, 2017, available at <http://www.woodstockinst.org/sites/default/files/attachments/Chicago%20and%20LASD%20Report%20-%20CC%20License%20Update.pdf>

A strong rule pursuant to Section 1071 is essential to being able to identify business and community development needs and opportunities of women-owned, minority-owned, and small businesses.

Sincerely,

National Community Reinvestment Coalition (NCRC)
Alabama Small Business Development Initiative
Asli Pure Natural Body Care LLC
Asian Journal, Inc.
BI Finishes, LLC
Building Alabama Reinvestment
CASA of Oregon
Concept Medical Group
Domar Companies, LLC
E.A.T. w/ Culinary Professionals, Inc.
Empire Justice Center
Encore Solutions, Inc.
Eve's Lounge
The Neighborhood Scoop
Paragon Management Group, Inc.
Public Private Strategies
Rebuild Durham, Inc.
Scott County Housing Council
TSC Grand, Ltd.
Universal Housing Solutions CDC