

## NYS Senate Hearing on Access to Capital for Small Businesses During the COVID-19 Pandemic

Thank you for the opportunity to testify. My name is Jaime Weisberg and I am a senior campaign analyst at the Association for Neighborhood and Housing Development. ANHD is a nonprofit coalition of 80 neighborhood-based community organizations whose mission is to build community power to win affordable housing and thriving, equitable neighborhoods for all New Yorkers.

ANHD is a member of United for Small Business NYC, a coalition of community organizations fighting to protect small businesses from the threat of displacement, with a focus on owner-operated businesses that serve low income communities and communities of colors. ANHD also convenes the Equitable Reinvestment Coalition, which is dedicated to holding financial institutions accountable for the wealth and racial inequities they helped create and continue to perpetuate.

New York City's small businesses, especially those in the outer boroughs, face numerous barriers to accessing loans. And now due to COVID and the resulting economic crisis, businesses need direct financial assistance to make up for lost revenue. While some programs have been helpful to a subset of small businesses, the relief has been inequitably distributed, and has not sufficiently reached Black and Brown New Yorkers or the small businesses they own and operate.

In this testimony, I will focus on the Paycheck Protection Program and Community Reinvestment Act reform, and provide some recommendations, including:

- Rent and mortgage relief for commercial tenants and small and not-for-profit landlords
- Support S.5565-D/A.9665-E, which establishes the framework for public banking
- Making the New York Forward Fund more accessible and impactful for small businesses and immigrant communities
- Preserving and strengthening the state's CRA law, and advocating for a strong federal CRA framework
- Encouraging banks to adopt practices that support low-income communities and communities of color

**Paycheck Protection Program (PPP) Program:** The first round of funding ran out in less than two weeks and went overwhelmingly to larger businesses with established relationships with lenders<sup>1</sup>. The program improved in the second round, but many small businesses were still left out, particularly those owned by Black and Brown people, and by immigrants.

**ANHD recently released a white paper with the following key findings from our analysis of the PPP loans disbursed in New York City<sup>2</sup>.**

- 86% of loans were under \$150,000 and totaled just \$4.1 billion, whereas the remaining loans were over \$150,000 and totaled two to five times more, meaning a large amount of PPP funds went to larger businesses that are more likely to already have access to credit;. Also, \$134 billion of total PPP funding was never loaned out. **That money could have been better directed towards struggling small businesses.**

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<sup>1</sup> <https://www.npr.org/2020/05/28/863387203/why-the-small-business-rescue-program-has-slowed-way-down>

<sup>2</sup> <https://anhd.org/blog/new-yorks-small-businesses-left-out-paycheck-protection-program>

- The geographic distribution of loans largely matches pre-existing inequitable lending patterns, with **lower concentrations of loans in low-income communities and communities of color where COVID hit hardest**. Just 5% of all loans reported demographic data, and of those that did, 15% went to Hispanic-owned businesses, and just 5% to Black-owned businesses.
- **The percentages of PPP loans by nonbanks are higher in communities of color** - communities that have fewer bank branches and higher rates of unbanked people<sup>3</sup>. **Black and Hispanic households are unbanked at 5 to 6 times the rate of white households**<sup>4</sup>. This means they are less likely to have the means to access financing programs like PPP.
- **Loans did not reach the industries that needed them the most** - 30% of loans went to businesses that are more suited to working remotely, and 50% went to “face-to-face” industries that had to shut down or reduce operations.

Only 7.2% went to food services establishments that have been among the hardest hit industries. **Meanwhile, just 2.3% of loans went to manufacturing firms, many of which had to shut down completely for months**. The manufacturing sector is vital to New York City as one of the few sectors where the majority of jobs pay good wages (over \$50,000) typically without requiring a college degree, and employs large numbers of immigrants and people of color<sup>5</sup>.

Only 98 loans went to street vendors, who lost significant revenue if they were able to operate at all. **New York City has approximately 20,000 vendors<sup>6</sup>, many of whom have been excluded from multiple relief programs due to their immigration status or the nature of their work<sup>7</sup>.**

The Community Reinvestment Act (CRA) is a key civil-rights era law that requires banks to lend and provide banking equitably and support community development in the communities where they are chartered.

**The CRA is an important factor in directing capital to small businesses and organizations that serve them. Rather than strengthen the law to make it more impactful, the Trump administration is weakening the law for the largest banks.**

- In May of this year, the **Office of the Comptroller of the Currency (OCC)**, unilaterally finalized rules that threaten the Community Reinvestment Act (CRA). The new rule will make it harder for small businesses to access the resources they need for an equitable recovery<sup>8</sup>:

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<sup>3</sup> ANHD testimony to Congressional hearing on CRA modernization:

<https://www.congress.gov/116/meeting/house/110580/witnesses/HHRG-116-BA15-Wstate-WeisbergJ-20200306.pdf>

<sup>4</sup> <https://www.economicinclusion.gov/surveys/2017household/banking-status-findings/>

<sup>5</sup> <https://anhd.org/blog/nyc-relaunches-innovative-industrial-developer-fund>

<sup>6</sup> <http://streetvendor.org/blog/>

<sup>7</sup> <https://anhd.org/blog/include-excluded>

<sup>8</sup> <https://anhd.org/report/bank-reinvestment-risk-occs-cra-rule-will-hinder-covid-recovery>

- The rule prioritizes dollars loaned over the impact of those dollars and large deals over smaller ones. This will make it harder for small businesses to access the loans they need to survive, and for nonprofits to access capital (grants, loans, and investments) to loan to, serve, and assist these businesses.
- The rule raises the size of a small business from \$1 million in revenue to \$1.6 million making it even harder for very small businesses to access loans.
- **The Federal Reserve Board** has put forth a more constructive CRA plan that looks at quantity and quality of lending and has the potential to put more emphasis on very small businesses. One of the key questions they ask is how to direct more financing to these businesses.
- Section 1071 requires the CFPB to create a database of all small business loans by banks and non-bank lenders, and characteristics of the businesses and loans, including if the business is owned by a woman and/or person of color. This data can help inform a bank's performance under the CRA and analyze the impact of all lenders. After years of delay, it is moving forward and the details will determine how impactful it is<sup>9</sup>.

Without meaningful solutions and resources available to small businesses at the state and city levels, commercial tenants will be saddled with hundreds of thousands of dollars of debt and no way to repay it, and many small businesses could be forced to shutter permanently.

Although these are federal programs, there are important steps New York State can take to address the inequities I described. We believe the state should:

- **Suspend rents for commercial tenants impacted by the pandemic and create mechanisms for small and not-for-profit landlords impacted by this to seek relief.**
- Support S.5565-D/A.9665-E, which establishes the framework for **public banking**
- **Enhance the New York Forward Fund** to allow local CDFIs to make loans, particularly those that serve immigrant businesses; make all or some of it forgivable, potentially with other grants as well; make all the information available and accessible in multiple languages.
- **Preserve and strengthen the state's CRA law for state-chartered banks, including expanding CRA to non-bank lenders and utilizing the new CRA requirement to serve MWBs to address unmet credit and capital needs.**
  - Encourage banks to make small business loans, support CDFIs with grants and low-cost capital, and provide grants to small businesses, directly or through another community organization.
  - Push back against the harmful proposals coming out of the federal administration, such as the OCC's CRA rule and "true lender" proposal that opens the door to payday lending in New York State. Support and provide input on more productive proposals, such as the Federal Reserve Board's CRA proposal.
- Halt bank branch closures in low-income communities and communities of color, encourage banks to accept IDNYC and other forms of identification, update the lifeline account to minimize or eliminate overdrafts, and incentivize banks and credit unions to open in these same communities.

The focus of all efforts must be on the smallest businesses, immigrant-owned businesses, and businesses owned by Black and Brown New Yorkers. Additional emphasis must be on efforts that support quality jobs for similar populations.

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<sup>9</sup> <https://ncrc.org/ncrc-initial-analysis-of-the-cfpb-sbrefa-panel-outline-a-step-in-the-right-direction-but-improvements-sought/>

Thank you for the opportunity to comment. Please do not hesitate to reach out if you have any questions or comments. I can be reached by email ([Jaime.W@anhd.org](mailto:Jaime.W@anhd.org)) or phone (718-637-3054).

Sincerely

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