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TESTIMONY ON BEHALF OF FORWARD FINANCING LLC
SUBMITTED TO

THE NEW YORK STATE SENATE

STANDING COMMITTEE ON BANKS

STANDING COMMITTEE ON
COMMERCE, ECONOMIC
DEVELOPMENT AND SMALL
BUSINESS

REGARDING
ACCESS TO CAPITAL FOR SMALL BUSINESSES DURING THE COVID-19 PANDEMIC

OCTOBER 14, 2020

On behalf of Forward Financing LLC, I am pleased to submit written testimony regarding access to capital for small businesses during the COVID-19 pandemic. My hope in appearing before you today is that I may serve as a resource to both Senate Committees regarding the current plight of New York small businesses, and to offer the support of Forward Financing in the spirit of working together to help save these main street businesses that are the backbone of the American economy.

Forward Financing is a nationally recognized financial technology company that provides fast and flexible working capital to small and medium-sized businesses across the country. We are also a member of the Small Business Finance Association (SBFA). Since its founding in 2012, Forward Financing has provided more than 23,000 businesses with funding to help them purchase inventory, hire employees, expand their operations, and open new locations. These small businesses include restaurants, nail salons, small construction firms, transportation companies, and specialty contractors such as electricians and plumbers. New York is home to one of Forward Financing's largest customer bases. We have funded over 1,400 small businesses that call New York home.



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By any measure, the COVID-19 pandemic has hit Forwarding Financing's New York customers hard. Since the pandemic began in March, 71% of our New York customers and 65% of our total small business customers needed help to reduce or pause their payments once their revenues began to drop. We were able to work with our distressed customers to significantly reduce or suspend their payments while they contended with government closure orders, capacity restrictions, and diminished customer traffic.

The number of financing applications we received from prospective New York customers during the first full week of October was down 73% from the number we received during the first week of March 2020. In our view, this sharp drop suggests two likely outcomes: (i) the pandemic has stifled the growth of New York small businesses to the point that they are no longer actively seeking capital, seemingly resigned to slowly winding down their operations with no clear end to the current economic crisis in sight; and/or (ii) the Paycheck Protection Program, Economic Injury Disaster Loans, and other state-based stimulus measures have been effective in stabilizing these businesses for the near term. The underlying cause should become clearer as we observe application and funding trends in the coming months as businesses exhaust their stimulus funds.

For most of these small businesses, obtaining a typical bank loan in traditional times is an arduous, months-long process for which their chances of approval are relatively low. Many are often turned away by traditional lenders such as banks due to lack of time in business, uneven revenue flow, or blemished credit. Minority-owned and women-owned businesses have faced an even harder uphill battle when trying to access traditional loans. Using data from a Small Business Credit Survey conducted in 2018, the Brookings Institution recently reported that large banks approve approximately 60% of loans sought by white small business owners.¹ Comparatively, these large banks approve only 50% of loans sought by Latinx or Hispanic small

¹ Sifan Liu and Joseph Parilla, *Businesses owned by women and minorities have grown. Will COVID-19 undo that?*, Brookings Institution, April 14, 2020, [brookings.edu](https://www.brookings.edu).



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business owners, and only 29% of loans sought by Black small business owners. A topical survey conducted by McKinsey & Company revealed that 42% of minority-owned small businesses reported that obtaining credit had become even more difficult during the pandemic.² Moreover, a brief released by the Federal Reserve Bank of New York in August showed that fewer than 1 in 4 Black-owned companies with employees have a recent borrowing relationship with a bank.³ When women- and minority-owned businesses are denied or underserved by traditional lenders, they look to alternative financing sources from financial technology companies such as Forward Financing.

The initial business closure orders in New York and across the country signaled the beginning of the end for many small businesses, especially those in the restaurant, retail, and personal services industries, all of which are dependent on in-person contact with customers. The McKinsey study I referenced earlier observed that minority-owned small businesses are largely concentrated in these industries. Although the partial and phased reopenings allowed some of these businesses to restart their operations, the new protocols mandating social distancing and imposing capacity restrictions have decreased customer traffic to the point that many of these businesses will not survive the pandemic without financial rescue. Yet again, minority-owned businesses have been disproportionately affected. The August brief from the Federal Reserve Bank of New York showed that while only 17% of white-owned businesses closed from February to April 2020 as the pandemic struck, the closure rate was 41% for Black-owned businesses, 32% for Latinx-owned businesses, and 26% for Asian-owned businesses.

Even with the economy reopened, small businesses are in dire need of help. Paycheck Protection Program funding has dried up. Washington has indicated that a new stimulus bill will not be passed any time soon. As fall and winter approach, medical experts have predicted that COVID

² André Dua, Deepa Mahajan, Ingrid Millán, and Shelley Stewart, *COVID-19's effect on minority-owned small businesses in the United States*, McKinsey & Company, May 27, 2020, [mckinsey.com](https://www.mckinsey.com).

³ Claire Kramer Mills, Ph.D. and Jessica Battisto, *Double Jeopardy: COVID-19's Concentrated Health and Wealth Effects in Black Communities*, Federal Reserve Bank of New York, August 4, 2020, [newyorkfed.org](https://www.newyorkfed.org).



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cases will spike once again, threatening additional state-mandated closures that will sound the death knell for small businesses already teetering on the precipice. Fearing a second wave, New York City is already moving towards reimposing lockdown restrictions in certain boroughs that will require nonessential businesses to close for a second time.

For the large majority of New York small businesses, the qualifying standards for traditional financing are too stringent to offer them the help they need during this critical time. Without any additional government stimulus on the horizon, alternative financial technology companies like Forward Financing are a crucial option for small businesses to obtain the capital they need to remain open. For our part, Forward Financing will continue to support these small businesses throughout the pandemic for however long it lasts. These main street businesses can rely on us to work with them to provide much-needed capital and to reduce or pause their payments if their revenues slow in the event of future lockdown orders. Forward Financing only succeeds, and the alternative financing industry as a whole only succeeds, when our small business customers succeed. Right now, they are fighting for their lives and they need all of our collective help.

Regards,

Justin Bakes

CEO

Forward Financing LLC
