

RURAL AMERICAN RECOVERY: THE ROLE OF SMALL BUSINESSES AND ENTREPRENEURSHIP

HEARING BEFORE THE COMMITTEE ON SMALL BUSINESS UNITED STATES HOUSE OF REPRESENTATIVES ONE HUNDRED SEVENTEENTH CONGRESS FIRST SESSION

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RURAL AMERICAN RECOVERY: THE ROLE OF SMALL BUSINESSES AND ENTREPRENEUR- SHIP

TUESDAY, JULY 13, 2021

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
SUBCOMMITTEE ON UNDERSERVED,
AGRICULTURAL, AND RURAL BUSINESS DEVELOPMENT,
Washington, DC.

The Subcommittee met, pursuant to call, at 12:59 p.m., via Zoom,
Hon. Jared Golden [chairman of the Subcommittee] presiding.

Present: Representatives Golden, Delgado, and Williams.

Chairman GOLDEN. Good afternoon. I call this hearing to order.

Without objection, the Chair is authorized to declare a recess at
any time.

I would like to begin first by thanking Representative Williams
for joining me today in the capacity of Ranking Member for the
Subcommittee, filling in for Congressman Hagedorn, who I nor-
mally sit beside at all these hearings. I think it is okay to say,
given his public statements, that, you know, we are thinking of
him, the entire Congress, the entire Committee, and I know staff
as well want to send him our very best wishes. And I will person-
ally offer him all my prayers and very best wishes [inaudible] soon,
and all our best wishes for his health and well-being.

And, Mr. Williams, thanks for joining us today.

First things first, I will point out a couple of housekeeping
issues. House and Committee rules and practices continue to apply
when we are having remote proceedings. This means all members
should expect to—or are expected to adhere to the standing rules,
including those around decorum, when participating in remote
events.

With that said, the technology we are using today requires some
small modifications to ensure that members can fully participate in
these proceedings. House regulations require members to be visible
through video connection throughout the proceeding, so keep your
cameras on. And if you have to participate in another proceeding,
please exit and log back in later.

In the event a member encounters technical issues that prevent
you from being recognized for questioning, I will move to the next
available member of the same party and will recognize that mem-
ber at the next appropriate time spot.

Should a member's time be interrupted by technical issues—hold
on, that is just a repeat.

In the event that a witness loses their connectivity during testimony or questioning, I will preserve their time as staff work with them to try and fix the technical issue. We may need to recess the proceedings to provide time for the witness to reconnect.

And finally, remember to remain muted until you are recognized in order to help minimize background noise. In accordance with the rules, staff have been advised to mute participants only when there is inadvertent background noise that is disrupting the hearing.

Should a member wish to be recognized, they need to unmute themselves and seek recognition at the appropriate time.

With that, I will provide an opening statement.

The health of the economy in rural communities is strongly tied to the overall well-being of the American economy. Rural areas hold the vast majority of our country's land and supply the rest of the country with the food, water, and energy we depend on.

And yet, as a Representative of one of the most rural districts in the country, I have seen many examples of the way rural communities are ignored by the Federal Government and left out of the national political debate.

Even when Washington discusses rural America, rural Americans themselves are provided little opportunity to give their actual input. They are essentially often the subject of debate rather than leading the debate themselves. As a result, the Federal Government often makes half-hearted attempts to spur economic development in rural communities.

Programs are targeted more towards urban and suburban areas—where the money is—without much thought for how those programs impact rural communities or could be changed to better help rural business owners, like farmers, small-scale manufacturers, fishermen, loggers here in Maine, and there are many other examples all over the country.

The Office of Rural Affairs within the Small Business Administration is a classic symbol of how the Federal Government and Congress often fails in its commitment to rural America. As a good friend of mine is known to say about politics and government, too often when all is said and done, more will be said than done.

The SBA Office of Rural Affairs was first established in 1990, during the first Bush administration, to provide information and assistance to rural businesses. However, the office has been left largely vacant since 2005.

When I arrived in Congress in 2019, I was upset to learn that the office was dormant, and worked with a group of like-minded members on this Committee to raise the issue with the Trump administration. The administration was receptive and became the first in nearly 15 years to devote resources to the office.

Given that the office has been either empty or widely under-resourced for years, it is no wonder that one of the problems I hear most about SBA from rural small business owners in my district is that they just don't know much about their services, such as Small Business Development Centers or SCORE partnership, or believe that their loans, SBA loans that is, aren't competitive or come with too many bureaucratic strings attached.

I was encouraged that the acting director of the office was able to hire additional staff in 2020, thanks to funding from the CARES

Act. Congress should provide the office with a dedicated funding authorization to build on what was accomplished in 2019 and 2020, rather than fading away again to leave rural businesses without an advocate within the SBA.

This office can and should play an important role in connecting rural Americans to programs and services that can help their businesses and subsequently help their communities. It should also play a role in bringing feedback from rural businesses back to the SBA headquarters, regionally and nationally, so that it can make improvements to better serve these important businesses.

I hope that today's hearing can help provide us with feedback on how we can strengthen the Office of Rural Affairs and other initiatives to support rural businesses. I see the same value in the office that the Trump administration saw and that members in this Committee in the last Congress saw. And I believe that this work is long overdue and important to so many communities across the country.

I look forward to working with my colleagues on this Subcommittee to continue to ensure that rural communities get the attention and support that they deserve.

I would now like to yield to Mr. Williams for his opening statement.

Mr. WILLIAMS. Thank you, Mr. Chairman, Chairman Golden. I want to thank you for allowing me to fill in for Ranking Member Hagedorn, who we are all praying for as we sit here today.

Today's hearing is of the utmost importance as we are going to be exploring the Nation's rural small businesses, how they have fared under COVID-19, and what they face moving forward.

Despite their strong work ethic and dedication, America's small businesses, entrepreneurs, and start-ups faced extreme challenges dealing with COVID-19 and the State and local shutdown measures that followed.

Without having the ability to make safe, sound, and prudent business decisions, mandates were handed down that caused businesses to change their operations or even close.

Thankfully, Congress worked with former President Trump to enact and activate a number of critically important small business relief programs, including the quick-moving Paycheck Protection Program.

These relief programs, combined with States opening up, started a sequence of events that provided small businesses with the opportunity to look toward recovery. Unfortunately, not all States have maintained the same speed of reopening. However, in my State of Texas, we had the benefit of opening up quickly, and we are seeing results as compared to those States that have stayed closed for a longer period of time.

Moreover, as the country opens back up, small businesses are now faced with a set of difficult realities. While historically operating on thin margins, America's Main Street is facing a rising new threat of inflation.

The price of everything from gasoline to products that we use every day are climbing at the fastest pace we have seen in almost a decade. And just this morning, the government published new

CPI numbers that shows inflation has increased to 5.4 percent over the last 12 months.

Additionally, labor and workforce issues continue to challenge business owners as they search for employees. And according to the Bureau of Labor Statistics, there are over 9.2 million job openings across the Nation, and, unfortunately, help wanted signs are becoming all too familiar. And I can tell you that we see that in my business every day.

On top of inflation and not being able to find workers, the Biden administration is threatening the Nation's best job creators with tax increases. Now, whether it is increases to the individual's tax rate, the corporate rate, or increasing capital gains tax, these changes will hurt small business directly and indirectly and have lasting effects for small businesses in my State of Texas, to Minnesota and beyond coast to coast.

Instead of promoting a pro-growth environment, like we should be, to help small businesses recover quickly from the past year and a half, this administration is putting up roadblocks and hurdles and making small business owners very defensive.

Over the past year, this Committee, and especially this Subcommittee, have put a focus on strengthening some of the Nation's COVID programs for rural small businesses. We have found common ground on rural issues in the past, and I look forward to continuing to work with my colleagues to find solutions for all of our rural small businesses.

And as Members of Congress, we must work together to bring back the pro-growth environment that the Nation experienced prior to COVID-19, an environment we had not seen in many, many years. I hadn't seen it in the 51 years I have been in business.

I look forward to today's conversation. I especially want to thank our witnesses for being with us. Instead of running their shops today, they are with us to discuss these important topics. I thank you for joining us, and I look forward to hearing from each one of you.

And, Mr. Chairman, again, thank you, and I yield my time back. Chairman GOLDEN. Thank you, Mr. Williams.

Take a quick moment here to explain how the hearing will proceed. Each witness will have 5 minutes to provide a statement and each Committee member will have 5 minutes for questions. Please ensure that your microphone is on when you begin speaking and that you return to mute when finished. And, with that, we will introduce our witnesses.

Our first witness is Mr. Nathan Ohle, the CEO of the Rural Community Assistance Partnership, a national nonprofit focused on economic development for rural communities, assisting rural communities across the country as they work to build capacity and resiliency.

Mr. Ohle has been a leader in economic development for more than a decade, serving as senior adviser at the U.S. Economic Development Administration under the Obama administration and the White House Rural Council. Thank you for joining us today.

Our second witness is Ms. Jessica Campos of the Center for Rural Affairs and director of the Women's Business Center. She coordinates the Rural Enterprise Assistance Project.

Ms. Campos is focused on promoting the growth of women and minority-owned small businesses through programs that provide training, technical assistance, and access to credit and capital. She has a background in banking and finance, including more than a decade of experience providing financial education to consumers, small business owners, and their employees. Thank you for joining us today.

Our third witness is Mr. Brett Challenger, senior vice president of CoBank, one of the largest providers of credit to the U.S. rural economy. Mr. Challenger heads up CoBank's Regional Agribusiness Banking Group, and also has experience with CoBank's energy and water divisions.

Additionally, Mr. Challenger led CoBank's efforts with SBA to provide PPP loans to customers, which involved developing the entire program from the ground up at CoBank. Thank you for joining us today as well.

And now I will recognize Mr. Williams to introduce his witness.

Mr. WILLIAMS. Thank you, Ranking Member and Chairman Golden, for extending me this opportunity to introduce one of our witnesses, and I am proud to introduce Mr. Alan Crawford.

Mr. Crawford is the present owner of Rangaire Manufacturing Company in Cleburne, Texas, which is located right in the middle of my District 25 here in Texas. Rangaire Manufacturing Company assembles cabinetry products for homes across the Nation, including our military. The business started in 1948 and was purchased by Mr. Crawford when he was an employee of the company in 2014. Prior to purchasing the Rangaire Manufacturing Company, he was in engineering and operations management for the business. He has truly seen this business from all sides.

Mr. Crawford has been able to grow the company from approximately 55 workers to just under one hundred today. With a degree in industrial engineering and an MBA from Texas Tech University, Mr. Crawford has had an extensive career working in manufacturing, including expertise and experience with metal fabrication, semiconductors, and telecom.

Now, he knows I am a TC Horned Frog; however, I can appreciate Texas Tech University and all of the other great schools and universities in my home State of Texas and people that they put out and help us with our economy.

Mr. Crawford, I can't thank you enough for joining us today. You and I are friends, and I have been to your office and seen your facility. We look forward to hearing more about your small business experience, how your company was impacted by COVID-19, and the discussion on how Congress can assist in the recovery of the rural small businesses. Again, thank you for taking time out of your busy day to come educate all of us on this Subcommittee.

Mr. Chairman, I turn my time back.

Chairman GOLDEN. Thank you very much.

We will now recognize our witnesses for 5 minutes. Mr. Ohle, we will start with you. You are recognized for 5 minutes.

STATEMENTS OF MR. NATHAN OHLE, CHIEF EXECUTIVE OFFICER, RURAL COMMUNITY ASSISTANCE PARTNERSHIP, WASHINGTON, DC; MS. JESSICA CAMPOS, WOMEN'S BUSINESS CENTER DIRECTOR, CENTER FOR RURAL AFFAIRS, LYONS, NE; MR. BRETT CHALLENGER, SENIOR VICE PRESIDENT OF THE REGIONAL AGRIBUSINESS BANKING GROUP, COBANK, GREENWOOD VILLAGE, CO; AND MR. ALAN M. CRAWFORD, OWNER AND PRESIDENT, RANGAIRE MANUFACTURING COMPANY, CLEBURNE, TX

STATEMENT OF NATHAN OHLE

Mr. OHLE. Thank you, Chairman Golden, Congressman Williams, and members of the Subcommittee, for this opportunity to discuss the importance of small business and entrepreneurship in supporting rural communities, and how the SBA can help small businesses and entrepreneurs thrive in rural areas.

My name is Nathan Ohle, and I am the CEO of the Rural Community Assistance Partnership. RCAP is a national network of nonprofit partners, providing technical assistance, training, and resources to rural and Tribal communities in every State, territory, and on Tribal lands.

Through our regional partners, more than 300 technical assistance providers build capacity that strengthens rural economies. Our approach is grounded in long-term trusted relationships with thousands of rural communities across the country.

Last year, RCAP served more than 3.4 million rural and Tribal residents in more than 2,000 rural communities with an average population of 1,500 and a median household income of half the national average. In addition, with people of color representing 21 percent of the rural population and 83 percent of rural population growth, we support a rural America that is increasingly diverse.

The talent, innovation, and resiliency of America's rural areas will play a central role in the future of the U.S. economy. COVID-19 has further exacerbated the challenges rural communities face as they have not fully recovered yet from the 2008 recession.

Now is the time to drive real and sustained change. Small business growth is the best way to reinvigorate the economy, especially in rural areas. The days of chasing after one big manufacturer are gone, replaced by a growing need to drive small business growth that intentionally embeds wealth locally, lifting up regions in a more equitable fashion.

According to a July 2020 survey from NPR, over 40 percent of rural households reported having household members that have been furloughed, lost a job, or had wages or hours reduced as a result of COVID. That same report said that over 30 percent of rural households had reported using all or most of their savings during COVID-19, including over 80 percent of Black and Latino households.

Small businesses are the biggest drivers of economic growth in the United States, employing 47 percent of the U.S. workforce and generating two-thirds of new jobs. In rural areas, people are more likely to be small business owners, and these businesses tend to be more resilient than in larger communities.

The SBA features a portfolio of small business lending and grant programs. Given that small businesses and rural communities are essential to the economic recovery efforts, an intentional focus on these programs is necessary to ensure that the smallest and lowest-resourced communities are not left behind.

I want to thank this Committee for all that it has done to support rural small businesses, in particular creating the Paycheck Protection Program. After significant advocacy efforts to help fill a major gap in rural communities, community development financial institutions, or CDFIs, were granted the opportunity to become PPP lenders. Two of RCAP's regional partners—RCAC and Communities Unlimited—participated in PPP as CDFIs.

CDFIs provide loans to small businesses, often pairing funding with technical assistance, helping to build capacity, and ensuring that those that need assistance the most receive it.

For example, when Communities Unlimited began processing PPP loans, they were intentional about reaching out to small-scale growers and small business owners in very rural communities. They immediately reached out to the Mileston Cooperative in Mississippi to connect these Black-owned, small-scale growers to critical funding for their farms during the pandemic. More than 10 members of the Mileston Cooperative were approved for loans in the PPP, giving them the critical funding required to keep their farms during the pandemic. In total, RCAC and CU made 597 loans, totaling almost \$29 million.

There is still a great need, however, for additional PPP funds for rural small businesses, as many got left behind in the final days of the program. This included more than 50 applications, totaling almost \$2 million, from RCAC and CU alone, including many minority-owned businesses on the brink of closing their doors.

Despite SBA's many successes, a substantial number of rural small businesses have difficulty accessing SBA programs. With help from experienced technical assistance providers, rural and Tribal small businesses can better access and manage Federal funds. Technical assistance plays a vital role in ensuring that programs serve the vulnerable small businesses they were designed to support. The newly created Community Navigator Pilot Program addresses these issues and should be made permanent. This program supplies grants to organizations with deep ties to rural communities to engage trusted, culturally knowledgeable field staff to conduct technical assistance and outreach.

Technical assistance is key to fostering strong financial management which, in turn, mitigates the risk for capital investments, unlocking capital badly needed in these communities.

In closing, the services provided through SBA deliver critical assistance to small and disadvantaged communities where it is most needed, especially as our country continues to respond to the COVID-19 pandemic. We must use the pandemic to put a stake in the ground, to start thinking innovatively about how we address the systemic and long-term inequities that have led to rural America falling behind its urban counterparts. If we don't, we may never make up that gap.

I thank the Committee for inviting me to testify, and look forward to working with you and your colleagues on these important issues.

Chairman GOLDEN. Thank you very much.

We will now recognize Ms. Campos for 5 minutes.

STATEMENT OF JESSICA CAMPOS

Ms. CAMPOS. Good afternoon, and thank you for the opportunity to testify today. My name is Jessica Campos, and I am the Women's Business Center director for the Center for Rural Affairs. The Center for Rural Affairs has been a leading force engaging people to create a better rural future since 1973.

The Center's history of innovative, insightful, and effective work for rural America provides a solid foundation from which we continue to build.

We became the host organization for the Women's Business Center, a service funded by the SBA's Office of Women's Business Ownership in 2001, and this entity has functioned as the primary educational and technical assistance provider for the Center's small business development program ever since.

Demand for the services we provide continues to grow. In the past 3 years alone, 2,795 aspiring or existing business owners have completed CFRA technical assistant programs. This has led to 164 business starts, 327 loans, and 557 jobs created or retained. During this time, CFRA staff provided 20,342 hours of business counseling over 16,693 sessions.

Small business development is so important in rural communities. Next to agriculture, small business is the most critical economic engine in Nebraska. According to a 2018 SBA report, 47 percent of our working population work for a small business or are self-employed.

Microbusiness development is especially important in rural areas where access to employment opportunities are limited and where jobs pay less. For many people, microbusinesses provide all or most of their household income. Self-employment provides up to 90 percent of all jobs in many rural Nebraska counties.

Our target market is disadvantaged people living in rural Nebraska. This includes women and families who earn low to moderate income and Latinos who currently run or want to start a small business.

To maximize client success, our Women's Business Center operates as a center without walls, which means we go to where the client is, both physically and educationally. We provide many services at the business location, and we meet at the client's level of understanding. We offer services both online and in person in evolving communities and designated opportunity zones.

In order to help us succeed, the Committee can help facilitate this important work by supporting three key policy changes.

First, permanently waive the 50 percent limit on pre- and post-loan technical assistant grant expenses for prospective borrowers. Naturally, providing the exact same amount of time on TA after a loan approval is not necessary when pre-loan training and education is effective.

Next, it is important to fully fund the Women's Business Center program at \$30 million in core funding, provide an additional \$48 million COVID-related appropriation, and waive the match requirement until fiscal year of 2023. The increase in core funding for the WBC program would support the increase in clientele and services we are currently experiencing. Separately, the additional COVID relief-related funding and waived match requirement would extend the support provided in statute to help WBCs over the past year.

With new business starts at an all-time high, demand for our services will grow, and these priorities would enable WBCs to continue the efforts we have adopted over the past year into fiscal year 2023, to support entrepreneurs in need.

Finally, we encourage lawmakers to support funding for the Office of Rural Affairs at SBA. The number of Federal programs available to small businesses has increased over the past 18 months. This requires development of new rules and regulations on a frequent basis.

We rely on SBA.gov for these announcements, but simply placing new information on a website is not enough for those of us who spend so much time on the road and meeting with clients. Having a consistent, rural-focused resource at SBA can help ensure we know where to go with any questions or concerns.

To conclude, I would like to thank you, and we appreciate the opportunity to share our perspective, and look forward to working with members of this Committee to develop and institute needed changes. Once again, thank you.

Chairman GOLDEN. Thank you.

Next, Mr. Challenger, we will hear from you for 5 minutes.

STATEMENT OF BRETT CHALLENGER

Mr. CHALLENGER. Good afternoon. Thank you for calling this hearing, and it is a privilege to be here. I am Brett Challenger. I am the senior vice president of our Regional Agribusiness Banking Group for CoBank in Greenwood Village, Colorado. The bank provides loans, leases, export financing, and other financial services to agribusiness and rural power, water, and communications providers in all 50 States.

CoBank is a proud member of the Farm Credit System, and also provides wholesale loans and other financial services to 20 affiliated Farm Credit associations, serving more than 75,000 farmers, ranchers, and other rural borrowers in 23 States.

We are immensely proud of the value and customer service we provide our customer owners across rural America. Financial strength and stability are critical to fulfill our mission to serve rural communities.

Organized as a cooperative, CoBank's earnings go back directly to our customers, not outside shareholders. Over the past 5 years, CoBank has distributed \$3.27 billion in patronage back to our customers across rural America, highlighting the enduring value of the cooperative model.

March 2020 brought tremendous uncertainty to CoBank. Our board and management made decisions enhancing our ability to respond to the economic challenges COVID-19 brought to our customers.

In April of 2020, CoBank and 52 other Farm Credit institutions mobilized to deliver Paycheck Protection Program loans. While a few Farm Credit associations had previously been Small Business Administration lenders, most, including CoBank, had not.

I was fortunate to lead CoBank's team to stand up the delivery mechanism for this economic lifeline. CoBank's employees proceeded to help 318 customers obtain more than \$418 million in PPP loans. Systemwide, Farm Credit delivered \$2.29 billion in 51,760 PPP loans to customers across the country, saving well over 126,000 jobs in rural America.

When we experienced challenges, the Office of Rural Affairs answered hundreds of questions via email and phone calls for us. They hosted two webinars for our customers to help navigate the loan application and forgiveness documentation. The staff went above and beyond while we at CoBank were delivering a program brand-new to us and also partnering with an agency which we had no familiarity with.

Without the Office of Rural Affairs, we would not have been as successful in executing PPP loans or navigating our customers' forgiveness applications through the SBA process.

A cooperative business model can be an answer to helping businesses get started. Lack of interested investors in rural businesses is not a new concept at CoBank. Over the last several years, we have developed and created a solution to address capital needs of small and emerging agriculture cooperatives.

CoBank, like all institutions in the Farm Credit system, is closely regulated by the Farm Credit Administration, an independent Federal financial regulatory agency.

Businesses in the early stage of growth do not traditionally meet underwriting guidelines. To address this, the CoBank board proposed a solution to FCA, creating a separate risk pool designed to provide more flexible financing for these cooperatives.

FCA approved the proposal, and Co-op Start was launched in 2012. Co-op Start provides flexible financing, up to \$250,000, to early stage growth agriculture co-ops. Today, Co-op Start has been used by 23 different small cooperatives in 9 States, with a total of \$2.7 million in commitments and loans and leases.

CoBank is committed to fostering the creation of new cooperatives through our support of numerous education and technical assistant programs, but co-ops are not the only answer. CoBank understands that rural entrepreneurs need dependable sources of capital to grow their businesses. Senior debt may be available, but equity in junior capital remain more difficult to source. Few rural focused investment funds exist beyond those that focus on acquiring farmland.

One type of equity investment that CoBank has made is with rural business investment companies licensed by USDA. Since 2013, CoBank has committed \$154.5 million to 10 private equity funds, funding over 70 rural businesses across the country.

We are strong supporters of the Rural Capital Access Act introduced by Senators Thune, Shaheen, and Fischer. This legislation encourages small business investment companies to invest in rural businesses while also allowing RBICs who do not currently receive

Federal appropriation to access leftover funds from the SBIC program.

We think collaboration is important in rural America. And at a time when rural communities are doing their best to recover from COVID-19 pandemic, we encourage more attention and investment into their longevity and success.

I want to express my strong support for the SBA Office of Rural Affairs and thank them for their support through our efforts through the PPP. Thank you.

Chairman GOLDEN. Thank you.

And, Mr. Crawford, we will have you wrap up the opening part here with your 5 minutes.

STATEMENT OF ALAN M. CRAWFORD

Mr. CRAWFORD. Thank you.

Good afternoon, and thank you for taking the time to listen to the voice of small business.

Rangaire Manufacturing Company has been in business since 1948, and is located in Cleburne, Texas, a small community of about 30,000 people, just south of Dallas-Ft. Worth. We are a classical manufacturing facility where we punch, form, paint, and assemble steel and plastic products for the residential housing market.

It has endured many changes in ownership, product lines, and economic challenges. During the economic turmoil and housing crisis of 2007 and 2008, the parent company of Rangaire consolidated many of their operations into our plant in Cleburne. I ran the operation for them when we transitioned from manufacturing ventilation products to medicine cabinets.

When the product line continued to struggle, I purchased the business from my employer, and in January of 2014, started my entrepreneurial dream of owning and operating a manufacturing business.

My parents were both public school teachers. My father died when I was in high school, and my mother supported our household the best she could. With financial help from family, bank borrowings, savings, lots of hard work, and mostly God's providential hand, my employees and I have been able to make this opportunity grow and eke out a profit. At the time, we saved about 55 jobs.

Today, we make products that support single family, multifamily, and military housing all around the world. We have more than 300 customers in all 50 States and Canada. Our sales have grown more than 30 percent. We have just under a hundred employees.

The savings from the 2017 tax cuts allowed us to invest in the business which contributed to this growth until COVID hit. While we took a significant hit to sales early in the pandemic, we were able to mitigate the impact to the business and ended 2020 with sales essentially flat from 2019.

We utilized PPP funds to maintain our workforce, pay bonuses, and extend paid leave so that our employees could take the time to deal with COVID in their own personal way.

Lately, the current economic environment has proved to be even more challenging than the pandemic. Our product line is not very glamorous, has low margins, and is very fragmented with lots of

competition. Our greatest competitive threat is from low-cost foreign manufacturers or large domestic producers that have a much broader product offering and are better capitalized.

Tariffs imposed on foreign competitors have helped us immensely, and delays in ocean freight and other logistical problems have driven even greater demand for our products. It is a good problem to have.

However, the surge in commodity pricing has been nearly impossible to get in front of. Our material components, such as steel, corrugated, and plastic, have seen cost increases from 15 to 40 percent. We don't enjoy much pricing power on our products, and, consequently, our margins and cash flow are severely challenged in spite of the growth in top-line revenue.

Other concerns arising this year have been supply shortages, longer lead times, and difficulty in finding labor. Labor has been a significant challenge in both finding adequate participants and meeting demands for higher wages. We are compelled to work overtime, which drives up labor cost and decreases productivity. These challenges have made it difficult to meet our customers' expectations, and we risk losing them to other suppliers. Unlike businesses with proprietary products, our customers do have a choice.

Looming large is the uncertain but promised tax increases from the current administration. I am concerned about losing the benefit of the bonus depreciation for capital investments.

Texas' extraordinary population migration is causing real estate values to explode. The real estate assessed value on my business property has more than doubled, another unplanned tax hit.

We continue to deal with the burden from the ACA, with increasing costs of mandated health insurance. This regulation is a significant burden to a company the size of mine as we are just over the threshold to require company-furnished health insurance but still so small that these costs are a major blow to our bottom line.

I absolutely love being a small business owner, but I have to say, I lose a lot of sleep when thinking about making payroll, trying to mitigate cost increases and margin pressure.

The impact of COVID has proven to me that businesses can survive and even thrive if we are allowed to pivot and innovatively solve problems. The sad truth over the last year has been that businesses that have failed, in most cases, is not a result of their own decisions but on edicts and mandates from local, State, and Federal Governments.

Thank you again for your time today.

Chairman GOLDEN. Thank you very much.

We will now go ahead and move to Q&A. I will go ahead and start things off.

Mr. Challenger, I wanted to ask you first a little bit. You talked about how the Office of Rural Affairs helped you as you were working to stand up something completely new at CoBank, which was getting involved in SBA lending and specifically how to help your clients accessing the Paycheck Protection Program.

How did you find out about the Office of Rural Affairs? Did they come to you? Did you reach out to them? How did that relationship start?

Mr. CHALLENGER. Thanks for the question. It was such a fast-moving process, and if you remember, when the PPP program was started, when it first opened, we weren't a licensed lender yet. We were not an SBA lender. We were still trying to get our license. So through that effort and pushing to get our license, we made contact with several people through SBA and were connected with the Office of Rural Affairs and put in touch with them.

Chairman GOLDEN. That is very helpful. Thank you. And most of that was—I mean, were you working directly with people over the phone or by email? You mentioned they did a couple of webinars kind of training to help you and your staff know how to access these loans?

Mr. CHALLENGER. Yes. Thank you for the follow-on question. Yes, the staff there, we worked with, Jeff, Renee, and Eric. They were on the phone with us and answered, I don't know, 200-plus emails between me and my colleagues, just navigating either the SBA system or the rules of the PPP program.

They also hosted, with our help, two webinars for over 600 of our customers. Now, we didn't make PPP loans to all those customers, but they were also customers of ours. So they may have gotten a PPP loan through another financial institution, but the Office of Rural Affairs was instrumental in helping all of our customers, those 600.

They followed up with—if they didn't know the answer to a question, they followed up within 24 hours and got that assistance from a technical perspective to our customers.

Chairman GOLDEN. [Inaudible] I guess just another followup. Setting aside the PPP loan program, as you look at CoBank's work with your clients going forward, how might the Office of Rural Affairs continue to be helpful in your mission within the Small Business Administration?

Mr. CHALLENGER. Yes, thank you for the question. The health of rural communities is really important, and our efforts are somewhat limited and our scope is limited. And so when we bring partners, if you will, to the table, like the SBA and the Office of Rural Affairs, the—I guess the ability to deliver value to those constituents in rural communities just continues to increase.

Our knowledge through the PPP program, our knowledge of SBA, and now our contacts with the Office of Rural Affairs will just enhance the ability to do that.

Chairman GOLDEN. Mr. Ohle, you talked a little bit about technical assistance partners. Can you maybe spend a little bit of time talking about the specific examples of technical assistance that has been helpful to rural businesses? You know, maybe you could also even just talk about this in the context of PPP and, you know, if you could just add in how can the Office of Rural Affairs help with this?

Mr. OHLE. Yes. Technical assistance can range from a whole variety of needs for rural small businesses, anything from business planning to marketing, to identifying how to use online marketplaces to better sell and produce products.

For us, through PPP, our two CDFIs provide direct technical assistance alongside the funding that they are providing so that they are ensuring those small businesses have the capacity and cer-

tainly can sustain operations moving forward. And so for us, a huge piece of that puzzle is pairing funding alongside technical assistance.

And the Office of Rural Affairs, we reached out to them as well when CDFIs were not qualified as PPP lenders to help advocate for that specific policy. That change was made, which obviously helped rural and Tribal areas across the country to access the PPP funds in a much more expedited process.

Chairman GOLDEN. Thank you very much.

Just seeing that I have only got about 20 seconds left, I will go ahead and reserve further questions for the panel later. I will now recognize Mr. Williams for 5 minutes.

Mr. WILLIAMS. Thank you, Mr. Chairman.

Today's hearing is all about small business recovery, which is why I find ironic since my colleagues on the left are also pushing for tax policies that will totally harm and hurt Main Street America.

The Biden administration has proposed tax hikes to pay for the American Families Plan, to advance the left's climate and social agenda, which will ultimately be financed on the backs of small business.

Under the proposal, businesses organized as C corporations would see a tax increase from 21 to 28 percent. That is a lot. And considering there are roughly 1.4 million small businesses organized as C corps, and they employ almost 13 million Americans, this dramatic increase will hurt small businesses just as they begin to recover from COVID-19 and it will cost jobs.

The American Families Plan would also increase the individual tax rate, which also hurts small businesses who are structured as pass-through entities. So if we want to help small businesses recover, we cannot—I repeat—cannot be increasing taxes.

So, Mr. Crawford, can you talk about the long-term consequences on a small business like yours, and even mine, in the manufacturing sector, if these tax hikes will be signed into law? And do you agree that tax cuts and less regulations—that is the fix. We can talk all day long about this, but that is the fix to save rural America and small business.

Mr. CRAWFORD. I think what most people forget and don't hear in the news is that most small businesses have very, very thin margins. And when you are talking about a 2 or 3 percent net profit margin on a business, any increase in an income tax, coupled with all the other taxes that may come in—I mentioned property taxes—that impact local business, small business as well, that can translate to 30, 40, or 50 percent of your final net income, which is a big blow to a small business.

So we see in the news of companies making a ton of money, but we never hear about the private businesses because that information is just not published. But it is a huge impact and a big fear of just any increase in that tax rate can be a huge blow to a small business.

Mr. WILLIAMS. Just by talking about President Biden's potential tax hike, small business owners are on the defense. With looming threats of nearly doubling the capital gains tax, I have already spoken to businesses who are changing their operations and put-

ting off investments because they are unsure what the Tax Code might look like in a year.

Now, these are ridiculous increases—there is no question about it—and these increases will reduce long-term investments since there will not be the same profit incentive for those people willing to take a risk and bet they will be rewarded in the future. Our Tax Code should focus on getting people to invest, not to be penalized for their success.

So, Mr. Crawford, have any of your day-to-day business decisions already changed due to the uncertainty and concerns that tax hikes, like we have talked about, may come to fruition?

Mr. CRAWFORD. It is incredible that you ask that question. We have actually been reviewing some capital purchases over the last 3 or 4 months that are significant purchases for us to invest in our business.

We did that last year, made a significant investment in some equipment. We wanted to do the same thing this year, but frankly, with the state of the business, our cash flow impact, the concern over increases in tax rates coming up probably sooner rather than later, has put all of that on pause.

Our reaction to that is, we need to hold on to cash. We need to be concerned about just margins in particular. And so the risk involved with investing in capital in an uncertain future is just too great right now. It is more of a wait-and-see.

Mr. WILLIAMS. Yeah. You are playing defense just on what you hear.

Real quick while my time is going, can you discuss the workforce issues that you have experienced once the pandemic began to subside?

I mean, here we are paying people to sit on the couch, paying people not to work. In Texas, as you know, we have stopped that and we have seen some movement. But why do you believe small businesses are still struggling to find workers?

Mr. CRAWFORD. I do think it is a reaction to the demand that we have seen, where our demand for employees has grown significantly, but there is an awful lot of people out there that aren't ready, for whatever reason, or don't want to come back to work.

And I do believe that part of that is they have funding to not work, whether that is extended unemployment benefits. We are about to launch extended childcare credits. That is going to be a significant cash flow to people that is in our demographic of people we hire for our jobs.

And I believe that the difficulty is, there is just not a pool of available workers that are willing and ready to come back to work.

Mr. WILLIAMS. Well, thank you.

And my time is up, Mr. Chairman. I yield back.

Chairman GOLDEN. I appreciate that.

Do we have any other members on the line right now? I noticed a few. They look like they might have dropped off.

All right. Well, I am going to ask a few more questions then.

Mr. Crawford, actually I was just listening to your testimony, wanted to ask—you used the Paycheck Protection Program. Did you end up using a lender that you had a preexisting relationship with or did you end up going to a new lender?

Mr. CRAWFORD. I did utilize that program, and it was with an existing lender, which was a large regional bank.

Chairman GOLDEN. Do you have—I mean, I know that that was a really successful program and one that was really critical to maintaining staffing for a lot of businesses, including your own. I am sure you were appreciative of that.

In general, do you have any feedback, as a business owner, about the program? Was it accessible and easy? Was it at times difficult as you were going through the application process, trying to figure out the rules?

I know Congress kept changing the guidelines, and then, of course, you had to look at forgiveness. And I don't even know the status of your own loan, has it been forgiven or not. You may not want to get into that. But any feedback for us in general about how that went?

Mr. CRAWFORD. It was very frustrating, to be truthful. I was in the first wave of it, so there was an extremely high amount of demand for that, and so there was a time-critical element to try to get all of your application in. And the fact that the rules kept changing, the interpretation kept changing, it was really a stressful moment of were the funds going to be available by the time we could figure out how to do the application and get that submitted and get it approved.

So, yeah, it turned out to be a good program, but getting there was quite a challenge.

Chairman GOLDEN. Yeah. It is very stressful, I am sure, especially you are just, you know, wondering how beneficial is this going to be at the end of the day and is it going to actually help me keep these people on the payroll.

So did you find that your lender was able to help you as all these changes and guidelines were going on and advise you? Did you have to figure it out, you know, kind of put in your own time into that, or, you know, who did you depend on to help you through that process?

Mr. CRAWFORD. As it turned out, the bank was—had about as difficult of a time. You know, they were trying to navigate the rules for them from the lender perspective. And so, honestly, it was such a large bank that I didn't get a lot of hand-holding through that process and had to answer the questions mostly on my own.

Chairman GOLDEN. Yeah. And I am sure [inaudible]. I am glad to hear that it ultimately worked out in a good way.

I am not, you know, thoroughly familiar with Texas—although I am going to be doing a visit to Texas with one of my colleagues in a bipartisan exchange program. He is going to come to me, and I will come to Texas later on. But I think that won't be till sometime next year.

But I see that you are outside of the Dallas-Ft. Worth metro area. I think there is a Small Business Development Center, a partner with the SBA, about an hour away from you. Have you ever heard of them or worked with them at all?

Mr. CRAWFORD. I have heard of that group several years ago, but I have not personally worked with them.

Chairman GOLDEN. Yeah. And anything through like the USDA and some of the programs they have for small manufacturers?

Mr. CRAWFORD. No, nothing with the USDA.

Chairman GOLDEN. Just curious.

You know, one of the things you said that really got my attention, here in Maine, the Small Business Development Centers worked with a lot of small business owners at the beginning of the pandemic to help them pivot. You know, they said, jeez, you know, maybe if your whole product line is getting shut down, maybe we can pivot you into, you know, something different here and, you know, try and make the—you know, make something good out of a bad situation, which is, you know, I think at the heart of what you were saying about entrepreneurs being unleashed to have the flexibility to make a change and survive.

But it certainly, I think, was helpful for them to have a little bit of assistance in that. Sometimes having another—you know, someone who has run a business in the past, you know, to step in and just help you with some business counseling can help you. But that is kind of what is at the heart of the SBDC program, but also when we are talking about the Office of Rural Affairs today.

Could you see yourself ever using a program like that that is, you know, free to you through the SBA, or in general, you know, do you think that you got all the capacity you need in-house?

Mr. CRAWFORD. Well, I would certainly say that we don't have all the capacity we need. I am constantly looking for input, sources of information to improve my business operation. So I would definitely consider any of the sources that are available to us to improve our operations.

Chairman GOLDEN. Well, thank you for that. I appreciate it.

Mr. Williams, do you want to ask any follow-up questions? I can give you another 5 minutes.

Mr. WILLIAMS. Yes. Thank you, Mr. Chairman.

I would ask Ms. Campos this just kind of generically speaking. Ms. Campos, I am a business owner. I employ hundreds of people down here in Texas, and been in business 51 years. And I appreciate what you are doing. But do you agree with me and many—and most small business owners that when we talk about these tax increases, it is detrimental to small businesses that are wanting to get started again, that tax cuts really put more money in the hands of these small business owners so they have rainy-day money, as we have heard Mr. Crawford talk about? Rather than talking about tax increases, tax cuts still work the best.

Ms. CAMPOS. I would like to say, in working with small businesses, that is an issue that we do come along every day. I think taxes are always an issue, regardless, to every business owner. But I would have to agree with the overall—

Mr. WILLIAMS. Okay. I think it is normal.

Ms. CAMPOS. Yeah.

Mr. WILLIAMS. If we have more money to these businesses, the more things we can do.

Ms. CAMPOS. Absolutely.

Mr. WILLIAMS. Mr. Crawford, you and I know there are a lot of us face rising costs every single day and price pressures because you operate on a thin margin, as I do—you have talked about that—in my business. What tools do you feel like you have at your

disposal to react to these pressures from price increases and, quite frankly, inflation that we see?

Mr. CRAWFORD. As a small business owner, it is a little—we really don't have a lot of tools to leverage against big suppliers. We generally have to take what they tell us, because we are not big enough to really leverage our cost power and pricing power with our vendors. So, really, our only reaction is to either cut our costs in other ways, which is—

Mr. WILLIAMS. Right.

Mr. CRAWFORD.—maybe labor costs or other costs, and then try to pass that on to our customers with price increases.

Mr. WILLIAMS. Lots of times, you and I know, you can't pass it to the customer, and you can only cut expenses so much to make a profit. So that is why—that is why the tax cuts we had in 2016 really worked, enabled people to take risks and get rewarded.

And I want to say this to everybody, and certainly the Chairman, about the SBA. You know, my goal is, I want the SBA to be the small business provider for small business, what they are, and I hope down the road we can begin to do some things together that will let the SBA think more like a small business owner rather than a government employee. And I think that will help our small business people too.

And I would just say this in closing, Mr. Challenger, I am one of your customers. I am in the cattle business back here in Texas. And the PPP program, at the end of the day, worked. There was some confusion in the beginning, but I think all of us would agree that the PPP program through Treasury allowed us to get a lot of money out because I don't know another system of banking or credit union system that anywhere in the world could have done what they did.

So it did work, but we don't want people to rely on government assistance. That is why we need to get back to cutting taxes and let small business create their own cash flow.

With that in mind, Mr. Chairman, I yield my time back to you.

Chairman GOLDEN. I think just to close things up with the panel and just think about what Mr. Williams just had to say, talking about the SBA really having a focus on the small business owner, not just from a lending perspective, but some of these other great programs we have, from Small Business Development Centers and Women's Business Centers and an office like the Office of Rural Affairs, which is really the subject of the hearing today, is how can we make sure that the Office of Rural Affairs can be there to be a voice and an advocate for small businesses but, in particular, small businesses residing in rural areas.

I guess I will just ask, how do each of you—and some of you have more experience than others with the SBA—but how do each of you feel that the Office of Rural Affairs could be useful to you and to your clients, given your experiences with them or just, you know, given your experiences in general as a business owner?

I think I will start with Mr. Challenger, and then we can go to Mr. Ohle, Ms. Campos, and then Mr. Crawford, if you have any closing thoughts on it.

I will start with you, Mr. Challenger, because I know you have actually had a pretty active interaction so far with staff at the Office of Rural Affairs.

Mr. CHALLENGER. Yes, thank you for the question. My response is going to be a—have a couple elements to it. I think that the SBA brings one of the tools, if you will, in the toolbox to small businesses, whether they be rural or urban. I think particularly in rural communities, like Ms. Campos has expressed, they need technical assistance and they need additional attention often times, because they don't have necessarily access to all of the other, I guess, expertise that you might find in a larger community.

So when I look at this as the Small Business Administration, SBA is one piece of the whole pie, if you will. The USDA brings programs to the table, they are all different. As we say at CoBank, you know, more options for customers is better and more options for communities is going to be better.

And so that the SBA programs and the Office of Rural Affairs brings a number of expertise to the table which helps small businesses. They may not be the solution, but there are other solutions around, and the more collaboration and sort of coordination we have, knowledge across agency products and things, I think, will help continue to facilitate progress in rural communities.

Thank you.

Chairman GOLDEN. Thank you.

Mr. Ohle?

Mr. OHLE. Thank you, Mr. Chair. I think in order to be effective, the Office of Rural Affairs, really, number one, needs to be fully staffed and have the capacity to address these issues, but it also has to have real authority to help expedite issues raised and address concerns of small businesses that are coming into the office.

We also think, they should create some kind of advisory council or entity that really engages folks on the ground, people like Mr. Crawford and other small business owners, to make sure that they hear the voices of those communities and those small business owners.

And, finally, the intergovernmental kind of connection between other agencies. Mr. Challenger talked about the USDA programs. Helping to understand the connection between small business growth, capital access, infrastructure like broadband and water and wastewater is really critical, and so also being that bridge between and among other Federal partners is critical.

Chairman GOLDEN. Thank you.

Ms. Campos.

Ms. CAMPOS. Thank you. Thank you for the question. So I think in our work, we not—we not only service clients but we also act as a key resource for many municipal economic development organizations. So when a local chamber of commerce has a question about Federal programs, they often come to us. And I think this is where additional resources is a huge need, especially when it is something that is—within rural Nebraska, there is such a large distance or such a long drive time between one area to the other. So additional resources are essential to what we do.

I also think this community-based need is a compelling reason to ensure a rural outreach at SBA as it is prioritized, and it is a priority that we do have. But I do think really as we work with clients and community partners and leaders, the—currently, the Women's Business Center is one of the major SBA resources covering a large, large territory. So very crucial to have a rural affairs.

Chairman GOLDEN. Well, one of my favorite things you pointed out is that you go to clients. You meet them at their business and meet them where they are at, instead of, you know, forcing them maybe onto, you know, email or some platform they are not familiar with or, worse, having to drive hours when they really should be focusing on starting up a business or running a business, although there are resource partners that are able to get out in the field and go right to the business owner, see the business firsthand too.

Mr. Crawford, any—anything that you want to add just about how an office like this might be helpful in rural, you know, business economic development?

Mr. CRAWFORD. Well, just real quickly, I do—I do think the SBA and its branches have a very valuable role in supporting small business in small communities. I would say I am a little hesitant, when we talk about growing organizations in government, that typically is not very efficient, an efficient use of dollars. So I do think they have a role, but I agree with Representative Williams that you got to fund those things, and the taxes are just a huge problem to grow government in order to pay for that. The tax increases are a problem.

Chairman GOLDEN. Thank you. I appreciate that.

You know, actually, I think the interesting part about the story of the Office of Rural Affairs in the context of this hearing is this is an office that was created by Congress under the first Bush administration back in the 1990s, really to bring an emphasis to the work of the SBA to rural businesses. I think there was a feeling back then, as I believe there is today, that a lot of times these, you know, programs end up not being fully accessible or even many rural businesses aren't even aware that they are there and how programs or lending opportunities or services might actually be available to them. Yet they are paying tax dollars into these SBA programs. Shouldn't we make sure some of that benefit returns back out to rural communities?

You know, a number of us on this Committee in the last Congress in 2019 brought this to the attention of President Trump's administration. We were very pleased how responsive they were to agree with us that it was unacceptable that this Office of Rural Affairs existed in the law, in statute at SBA, but was completely unstaffed, essentially ignoring the mandate from Congress to ensure that rural communities were getting a focus and had a voice in the SBA.

He very quickly worked to put in an acting director and some staff who ultimately were there to work with Mr. Challenger, as an example, in the midst of a pandemic that brought a lot of challenges to businesses. Who knows how many jobs, you know, were saved or benefited directly from the assistance that came out of the Office of Rural Affairs at that time. I think, you know, the timing

was fortuitous. But I don't want to see it end there. I would like to see it, you know, be successful moving forward. Really unfortunate that for over, you know, a decade, a decade and a half, the office was just allowed to fall by the wayside.

But I know what you mean, Mr. Crawford, and, you know, we are trying to get a lot out of very little here. Our bill that we are currently talking with the minority on—and I am always looking for opportunities to work with more colleagues like Mr. Williams—would bring these—this focus into the SBA for as little as \$3 million a year, which for a small business owner, people don't blink an eye at \$3 million but in the context of the Federal budget.

So I think we can do a lot of good for rural businesses with a very well, you know, thought-out office with a clear mission and some talented staff. So I think it is a worthy investment. I hope you all agree with me, and I look forward to working with Representative Williams, Representative Hagedorn, when we get him back, and with the rest of the Committee to try and do something to the Office of Rural Affairs in the years ahead and [inaudible] for small business owners around the country.

Mr. Williams, any closing remarks on your end?

Mr. WILLIAMS. No.

Chairman GOLDEN. I appreciate your time today.

Mr. WILLIAMS. I think it has been a great hearing, Chairman. And I want to thank again the witnesses for taking time out of their busy day to come talk to us about this.

There are some common-ground issues in Washington, believe it or not, and I think we have some common ground here. The bottom line is we all realize, and one of you touched on it, that small businesses, half the income, half the workforce, even more than that, is what generates this great economy, and we need to lessen the burden on small business, not increase it. That is going to be my goal and others' too. So thank you again for taking time, and you, Mr. Chairman, for holding the hearing today.

I yield back.

The CHAIRMAN. Thank you, sir.

And thanks to all of our panelists for joining us today. We appreciate your testimony and the answers you have provided to our questions.

With that, I would ask that there be unanimous consent that members have 5 legislative days to submit statements or supporting materials for the record.

Without objection, so ordered.

If there is no further business before the Committee, we are adjourned. Thank you all very much.

[Whereupon, at 2:07 p.m., the subcommittee was adjourned.]

APPENDIX



"Improving the quality of life in rural communities"

**Testimony to the
U.S. House Committee on Small Business
Subcommittee on
Underserved, Agricultural, and Rural Business Development**

**Mr. Nathan Ohle
CEO
Rural Community Assistance Partnership**

July 13, 2021



**Northeastern
& Caribbean
RCAP**
Serving all six New
England states,
New York, New
Jersey,
Pennsylvania,
Puerto Rico and
the U.S. Virgin
Islands.



**Southeastern
RCAP**
Serving Delaware,
Maryland, Virginia,
North Carolina,
South Carolina,
Georgia, and
Florida.



**Great Lakes
RCAP**
Serving Illinois,
Indiana, Kentucky,
Michigan, Ohio,
West Virginia, and
Wisconsin.



**Southern
RCAP**
Serving Arkansas,
Mississippi,
Tennessee, Texas,
Oklahoma,
Louisiana and
Alabama.



**Midwest
RCAP**
Serving Iowa,
Kansas, Minnesota,
Missouri,
Nebraska,
Montana,
Wyoming, North
Dakota and South
Dakota.



**Western
RCAP**
Serving Alaska,
Arizona,
California, Colorado,
Hawaii, Idaho,
Nevada, New
Mexico, Oregon,
Utah, and
Washington.

About RCAP

Thank you, Chairman Golden, Ranking Member Hagedorn, and members of the subcommittee, for this opportunity to discuss the importance of small businesses and entrepreneurship in supporting rural communities, and how the U.S. Small Business Administration can help small businesses and entrepreneurs thrive in rural areas.

My name is Nathan Ohle, and I am the CEO of the Rural Community Assistance Partnership (RCAP). RCAP is a national network of non-profit partners working to provide technical assistance, training, and resources to rural and tribal communities in every state, territory and on tribal lands. Through our regional partners, more than 300 technical assistance providers build capacity that leads to sustainable and resilient infrastructure and strengthens rural economies. Our approach is grounded in long-term, trusted relationships with thousands of rural and tribal communities across the country.

Last year, RCAP served more than 3.4 million rural and tribal residents in more than 2,000 of the smallest, most distressed communities. The average population of the communities we served was 1,500, with a Median Household Income of half the national average. We served more than 40 percent of America's persistent poverty counties, and almost 300,000 individuals from indigenous communities. In addition, with people of color representing 21 percent of the rural population, and 83 percent of rural population growth, we support a rural America that is increasingly diverse.

Covid-19 Impacts on Rural Communities and the Federal Response:

The talent, innovation, and resiliency of America's rural areas will play a central role in the future of the U.S. economy. Rural areas have always served as the backbone of this country and will continue to be a core measure of the success as the country seeks to rebuild after COVID-19.

Yet COVID-19 has also further exacerbated the challenges rural communities face, as they had not yet fully recovered from the 2008 recession. Rural communities also lag in other areas on indicators related to poverty, health, and education. Many distressed rural communities are those where racial inequities also dominate.

Now is the time to drive real and sustained change, while also creating opportunity for small businesses and entrepreneurs to thrive in rural areas. While small businesses have been crippled by the pandemic, they are also the best way to reinvigorate the economy, especially in rural areas. The days of chasing after one big manufacturer or the extractive approaches to economic development are gone, replaced by a growing need to drive small business growth that intentionally embeds wealth locally, lifting up regions in a more equitable fashion.

To do this, policy makers need to:

- create opportunities for small businesses and entrepreneurs to thrive in rural areas;
- provide additional resources to build capacity and provide access to funding; and

- focus investment on critical sectors like water, broadband and health, providing direct assistance through grants to address revenue losses and allow for future infrastructure projects to move forward.

According to a July 2020 survey from NPR, Harvard's School of Public Health, and the Robert Wood Johnson Foundation, over 40 percent of rural households "reported having household members that have been furloughed, lost a job or had wages or hours reduced as a result of COVID." That same report said that over 30 percent of rural households had reported using all or most of their savings during the coronavirus outbreak, including over 80 percent of Black or Latino households.

While largely unrecognized, rural areas of the country are more diverse than you might imagine. Whether you are discussing the Blackbelt of Alabama or Native Alaskan populations, the health and economic impacts of COVID-19 are hitting these communities harder than almost any area of the country.

I don't have to tell members of this committee that small businesses are the biggest drivers of economic growth in the US. Small businesses employ 47 percent of the United States workforce and generate two-thirds of new jobs. In rural areas, people are more likely to be small business owners, and these businesses tend to be more resilient than in larger communities. According to a recently release report from RCAP and the National League of Cities, urban and rural areas are often interdependent and perform better when they are economically connected within their regions. Robust connectivity, demonstrated through markets for goods and services, entrepreneurship, workforce and supply chains that span urban and rural areas, helps align the diverse strengths and assets present within regions. Small business growth is at the heart of driving connectivity.

The U.S. Small Business Administration features a portfolio of small business lending and grant programs tailor-made for rural businesses and communities. Given that businesses in rural communities are essential to the success of economic recovery efforts, and the SBA along with USDA Rural Development programs are the programs most specifically tailored to the capacity and reality of rural places, we urge you to focus resources on these programs, especially grant programs, that ensure that the smallest and lowest resourced communities do not bear the burden of debt financing for their recovery.

Small business engagement cannot be the sole focus of relief efforts, however. The systemic inequity that exists between urban and rural areas is a direct result of an aging infrastructure that was already in dire need of investment before the pandemic. Strong infrastructure in a community is a fundamental building block to unlocking small business growth.

We thank this committee for creating the Paycheck Protection Program (PPP) that was launched in the first phases of COVID-19 generated recovery funds that were meant to address the revenue losses of small businesses. We also appreciated the changes made in the subsequent relief packages ensuring that future PPP funds are available through certified Community Development Financial Institutions (CDFIs). They are important partners to ensuring that rural small businesses can access PPP funds. CDFIs often pair funding with technical assistance to

those businesses, helping to build capacity and ensuring that businesses that need assistance the most receive it. Two of RCAP's regional partners are CDFIs that participated in the PPP, making more than 597 loans totaling almost \$29 million. There is still a great need for additional PPP funds to rural small businesses, as many got left behind in the final days of the implementation of the program with little communication. This included more than 50 applications totaling almost \$2 million from RCAP's two regional partner CDFIs alone, including many minority-owned businesses on the brink of closing their doors. The legacy of inequity from PPP shapes the recovery needs moving forward. The disparity in access underscores the importance of continued resources to support small businesses in rural communities.

Another important program at SBA is the State Small Business Credit Initiative or SSBCI. Treasury and States should ensure the \$10 billion State Small Business Credit Initiative reaches rural communities, particularly persistent poverty communities and communities of color. In the last round of SSBCI, only 15% of all program dollars went to rural communities. Focused attention on the most vulnerable communities and aligning program access is critical to getting assistance to those who need it the most.

Technical Assistance is Key to Ensuring the Success of SBA's and Rural Communities:

Despite SBA's many successes, a substantial number of small, low-income towns, counties, and rural small businesses have difficulty accessing SBA programs. The application process and eligibility requirements for each program are slightly different, and each pose unique challenges. Small business owners are often solely focused on their business and may lack professional staff and resources to find out what funding sources are available, or the requirements for funding eligibility. But with help from an experienced technical assistance provider, rural and tribal small businesses can develop the capacity to access and manage needed federal funds. Technical assistance plays a vital role in ensuring that programs actually serve the vulnerable small businesses they were designed to support in a cost-effective manner.

RCAP thanks this committee for creating the Community Navigator Pilot Program to address these issues. This program will supply grants to traditional business assistance organizations as well as organizations like RCAP and our regional partners with deep ties to rural communities to engage trusted, culturally knowledgeable field staff to conduct targeted technical assistance and outreach to specific sectors of the small business community.

Additionally, rural and disadvantaged entrepreneurs and small businesses that are supported by affordable, local technical assistance are more likely to launch and grow businesses. Technical assistance is the best loan risk mitigation tool. Characteristics of robust Technical Assistance include:

- One-on-one assistance, not classroom training.
- Problem solving, not generic toolkits.
- Longer-term engagement, not a single counseling session.
- An accountability partner, not just a list of recommendations.

SBA also created an Office of Rural Affairs to better coordinate and engage with rural programs and communities. Unfortunately, that office has not been as effective as possible due to under staffing and lack of authority within the agency. In order to be effective, the SBA Office of Rural Affairs would need to have real authority to help expedite issues raised and address the concerns of small businesses located in rural and tribal areas. We would also encourage the Office of Rural Affairs to create an advisory council or other entity to better engage with the needs on the ground, so that the office understands the issues, and can move quickly, and provide assistance when needed.

Lastly, I want to emphasize policy opportunities to target resources in ways that will optimize the best long-term outcomes, especially for distressed rural places, including technical assistance, capacity building, and evaluation. Technical assistance is key to fostering strong financial management, which in turn mitigates the risk for capital investments, unlocking capital badly needed in these communities. We urge the committee to focus investments that will support local-ownership and control. Only with these types of strategic investments will people in rural communities be able to access and create locally-led strategies that will keep wealth in the hands of rural people.

Conclusion:

In closing, RCAP works with communities, businesses and partners across the country to advocate for and generate economic opportunities for rural areas. Solving the challenges facing rural communities requires a multi-pronged approach that includes adequate funding, steps to ensure that funding is available to all communities that truly need it, and a comprehensive approach to technical assistance to maximize the efficiency and effectiveness of SBA's programs. This approach should also include an emphasis on community economic development, and cost-effective investments in infrastructure that provide maximum return on federal investments.

The services provided through SBA deliver critical assistance to the small and disadvantaged communities where it is most needed, especially as our country continues to respond to the COVID-19 pandemic. We must use the COVID-19 pandemic to put a stake in the ground to start thinking innovatively about how we address the systemic and long-term inequities that have led to rural America falling behind its urban counterparts. If we don't, we may never make up that gap.

I thank the committee for inviting me to testify today, and I look forward to working with you and your colleagues to ensure these important priorities are passed into law.



July 13, 2021

Committee on Small Business
 Subcommittee on Underserved, Agricultural, and Rural Development
 2361 Rayburn House Office Building
 Washington, DC 20515-6315

Attn: Rural American Recovery: The Role of Small Businesses and Entrepreneurship

Re: Center for Rural Affairs Statement

I. About the Women's Business Center at the Center for Rural Affairs

The Center for Rural Affairs has been a leading force engaging people to create a better rural future since 1973. The Center's history of innovative, insightful and effective work for Rural America provides a solid foundation from which we continue to build. We fulfill our mission through services and programs focusing on rural microenterprise development, federal farm and rural policy, research and analysis of rural economic issues and trends and support of disadvantaged entrepreneurs. We began in northeast Nebraska and today have office locations across the state, as well as Iowa, Minnesota, and South Dakota.

The Center serves as an intermediary lender with the Small Business Administration (SBA) microloan program. We became the host organization for the Women's Business Center, a service funded by the SBA's Office of Women's Business Ownership, in 2001. This entity has functioned as the primary educational and technical assistance provider for the Center's small business development program ever since.

Demand for the services we provide continues to grow. In the past three years alone, 2,795 aspiring or existing business owners have completed CFRA technical assistance programs. This has led to 164 business starts, 327 loans, and 557 jobs created or retained. During this time, CFRA staff provided 20,342 hours of business counseling over 16,693 sessions.

II. The importance of small business development in rural communities

Next to agriculture, small business is the most critical economic engine in Nebraska. According to a 2018 SBA report, 47% of our working population work for a small business or are self-employed. Of these, 150,000 work in businesses with fewer than 20 employees.

Microbusiness development is especially important in rural areas, where access to employment opportunities are limited and where jobs pay less. For many people, microbusinesses provide all or most of their household income: self-employment provides up 90% of all jobs in many rural Nebraska counties. For others it is part of a patching strategy to make ends meet.

Our target market is disadvantaged people living in rural Nebraska who currently run or want to start a microbusiness or small business. This includes women and families who earn low to



CENTER *for* RURAL AFFAIRS

moderate income, and Latinos. These individuals are starting, growing or transitioning microbusinesses in the healthcare, social assistance, food, retail, and construction sectors.

To maximize client success, our Women's Business Center operates as a "Center without walls." We go to where the client is, both physically and educationally. We provide many services at the business location and we meet at the client's level of understanding. We do not provide education beyond their capacity and allow them to grow at a pace that is suited to the client. We offer services both online and in person in evolving communities and designated Opportunity Zones.

III. Policy changes can help us succeed

The committee can help facilitate this important work by supporting three key policy changes.

First, permanently waive the 50% limit on pre-loan and post-loan technical assistance (TA) grant expenses for prospective borrowers. The 50/50 limit is a burden and seems arbitrary, relative to the realities of needs regarding pre-loan and post-loan TA. Borrowers often come to us before they are ready, and their chances of success are significantly greater when we invest time on the front end ensuring they are adequately prepared. Naturally, providing the exact same amount of time on TA after loan approval is not necessary when pre-loan training and education is effective. We are in the strongest position to decide what kind of TA is necessary for those seeking assistance. Requiring us to report evenly split costs by quarter exacerbates the situation.

Next, it is important to fully fund the Women's Business Center (WBC) program at \$30 million in core funding, provide an additional \$48 million COVID-related appropriation, and waive the match requirement until FY23. The increase in core funding for the WBC program would support the increase in clientele and services we are currently experiencing. Separately, the additional COVID-relief related funding and waived match requirement would extend the support provided in statute to help WBCs over the past year. With new business starts at an all-time high, demand for our services will grow. These priorities would enable WBCs to continue the efforts they have adopted over the past year into FY23 to support entrepreneurs in need.

Finally, we encourage lawmakers to support funding for the Office of Rural Affairs at SBA. The number of federal programs available to small businesses has increased over the past 18 months. This requires development of new rules and regulations on a frequent basis. We rely on *sba.gov* for these announcements, but simply placing new information on a website is not enough for those of us who spend so much time on the road meeting with clients. Having a consistent, rural-focused resource at SBA can help ensure we know where to go with a question or concern.

IV. Conclusion

We appreciate the opportunity to share our perspective, and look forward to working with members of this committee to develop and institute needed changes.

Respectfully,

Jessica Campos

Testimony
of
Brett Challenger
Senior Vice President, Regional Agribusiness Banking Group
on behalf of
CoBank
Before the Subcommittee on
Underserved, Agricultural, and Rural Business Development
of the
Small Business Committee
United States House of Representatives

July 13, 2021

Good morning, Chairman Golden, Ranking Member Hagedorn and Members of the Subcommittee. Thank you for calling this hearing today to focus on "Rural American Recovery: The Role of Small Businesses and Entrepreneurship."

I am Brett Challenger. I serve as Senior Vice President of the Regional Agribusiness Banking Group for CoBank, based outside of Denver in Greenwood Village, Colorado. The bank provides loans, leases, export financing and other financial services to agribusinesses and rural power, water and communications providers in all 50 states. CoBank is a proud member of the Farm Credit System, and also provides wholesale loans and other financial services to 20 affiliated Farm Credit associations serving more than 75,000 farmers, ranchers and other rural borrowers in 23 states around the country.

We are a financially strong institution – delivering value to our customer-owners

We are immensely proud of the value and customer service we provide our customer-owners across rural America. Financial strength and stability are critical to our customer-owners and to fulfill our mission to serve rural communities and those who live in rural America.

Organized as a cooperative, we pay patronage to our customer-owners. That means CoBank's earnings go directly back to our customers – not outside shareholders. Over the past five years, CoBank has distributed \$3.27 billion in patronage back to our customers across rural America, highlighting the enduring value of the cooperative model.

2020 was a challenging year

Like the rest of the world experienced, March 2020 brought tremendous uncertainty to CoBank. As more than 95% of our associates shifted to full-time remote work, our board and management made decisions enhancing our ability to respond to the economic challenges COVID-19 brought to our customers. Through our 14 regional banking centers, we were able to reach out to each borrower to ensure that we could meet their immediate and rapidly changing needs to help them weather the storm.

Today, we can look back with pride, realizing that our worst case scenarios never materialized and we were able to keep the bank running without interruption. We are now preparing to welcome most employees back to the office in September.

For many of our customers, keeping their employees was a concern, but also a priority. Although many of our customers weathered the COVID storm well, the level of uncertainty and volatility was great. They were worried about being able to pay their employees, what was going to happen in the financial markets and for how long was all of this going to last? After Congress passed the CARES Act, there was a new option—the Paycheck Protection Program (PPP). In April of 2020, CoBank and 52 other Farm Credit institutions, mobilized to deliver Paycheck Protection Program loans. While a few Farm Credit associations had previously been Small Business Administration (SBA) lenders, most, including CoBank, had not. I was fortunate to lead CoBank's team to stand up the delivery mechanism for this economic lifeline of a program in nearly two weeks. CoBank's employees proceeded to help 318 customers obtain more than \$418 million in PPP loans. System wide, Farm Credit delivered \$2.29 billion in 51,760 PPP loans to customers across the country, saving well over 126,000 jobs in rural America.

Vital help from the Office of Rural Affairs

This program challenged SBA and lenders from the beginning, as many details to PPP were not set or defined. Not only was this a shotgun start for lenders, but it brought together lenders and borrowers with no previous experience with SBA procedures, in a race to lend out limited funds.

When we experienced challenges, the Office of Rural Affairs was a tremendous help to CoBank, the Farm Credit System and to our customers. They answered hundreds of questions from our team via email and phone calls. They hosted two webinars for our customers to help navigate the loan application and forgiveness documentation, inviting individual follow-up emails and calls. They helped us provide the service our customers deserve, during an especially uncertain and volatile economic time. Their help was essential in interpreting rules and guidelines in real time, as guidance was changing daily. The staff went above and beyond while we at CoBank were delivering a program brand new to us, partnering with an agency with which we had no familiarity.

In addition to their assistance with our PPP questions, our discussions with the Rural Affairs personnel helped us realize they could be an important means of bridging gaps between programs at USDA and programs at SBA when addressing rural needs. One thing that the pandemic made clear is that rural America was already struggling, and will continue to need extra attention and more capital to help recover from the challenges COVID has wrought.

The Office of Rural Affairs can serve as a useful coordinating resource for those in rural communities. SBA regional offices are often located in different locations than USDA offices. They can help bring information to businesses that may be unaware of ways they can help in rural communities. Without the Office of Rural Affairs, we would not have been as successful in executing PPP loans or navigating our customers' forgiveness applications through the SBA process.

We learned through our experience with SBA that some of the agency's programs are well suited to meet the needs of certain rural businesses. SBA's offerings are different from those of USDA and, for certain rural businesses, can provide substantial support to help businesses recover from the effects of the pandemic and foster job opportunities for rural families. Customers should have the information to make the best choice for their business and the Office of Rural Affairs can make sure the right capital resources and technical assistance are available.

I strongly encourage the subcommittee to support permanent funding for the Office of Rural Affairs.

Co-op Start

The cooperative business model is not widely understood but can be an answer to helping businesses get started. In the early days of the PPP, the Office of Rural Affairs understood the co-op difference and was helpful in getting cooperatives approved for PPP loans when traditionally, they do not qualify for most SBA lending programs. The Office of Rural Affairs staff understood the customers cooperatives serve, their unique role in local economies and the locations where they are based. The staff worked hard to make available the PPP assistance to those cooperatives, which was essential to our customer's survival.

Lack of interested investors in rural businesses is not a new concept to CoBank. Over the last several years, we have developed a creative solution to address capital needs of small and emerging agricultural cooperatives. As consumers have increased demand for local foods and other specialty crops, we started to see the formation of new farmer-owned cooperatives for distribution and marketing.

CoBank, like all institutions of the Farm Credit System, is closely regulated by the Farm Credit Administration (FCA), an independent federal financial regulatory agency. As federally-regulated lenders, we are required to maintain specific loan underwriting guidelines to protect the safety and soundness of our institution to ensure continued service for all customers. Businesses in the early stage of growth, many of these small and emerging agriculture cooperatives do not meet traditional underwriting guidelines. To address this, the CoBank Board proposed a solution to FCA - creating a separate risk pool designed to provide more flexible financing for these cooperatives. FCA approved the proposal and this new program, called Co-op Start, and was launched in 2012. Co-op Start provides flexible financing up to \$250,000 to early growth-stage agriculture co-ops.

In Co-op Start's first year, we began lending to an elderberry cooperative in Minnesota that started with just four producers, and today has over 20 producer-owners of the Minnesota based cooperative, including producers who live in Michigan and Iowa. To date, Co-op Start has been used by 23 different small cooperatives in nine states with a total of \$2.7 million commitments in loans and leases.

In early 2020, CoBank added two grant programs as pilot projects to the Co-op Start program. The idea was conceived in response to reduced demand for the Co-op Start loan program and is designed to push additional capital to cooperative development centers and rural businesses. Given the limited funds allocated to the pilot and uncertain demand for the funds, the grant programs were launched only through the cooperative development centers on whose boards CoBank associates serve: Cooperative Development Services (St. Paul, Minnesota), the Kentucky Center for Agriculture and Rural Development (Elizabethtown, Kentucky), and the Indiana Cooperative Development Center (Indianapolis, Indiana). In the last year, we provided grants to four more companies that did not meet lending eligibility requirements.

These new grant programs were rolled out through the eligible cooperative development centers just as COVID-19 gained widespread attention in the U.S. and non-essential business activity slowed considerably. This, combined with a relatively short application window, likely negatively affected the volume of equity match applications. We are aware of at least one equity campaign that is currently in-process and are expecting an associated grant application prior to the September deadline. Business planning and equity raising for small cooperatives and similar businesses seems to be an especially slow process and even free-money opportunities can be difficult for them to take advantage of in a timely manner.

The various application deadlines for USDA grant programs, many of which are in the first few months of the year, and significant lag between USDA application deadlines and decision dates further complicates administration of a matching funds program. We continue to work through this process, and hope that identifying other opportunities for investing in small businesses becomes a focus on the federal level.

Rural Capital Access Act

As I have stated, as a cooperative, CoBank is committed to fostering the creation of new cooperatives, through our support of numerous education and technical assistance programs. But we realize co-ops are not the only answer. CoBank understands that rural entrepreneurs – the engine driving rural economies – need dependable sources of capital to improve infrastructure they rely on to grow their businesses. Senior debt is readily available, but equity and junior debt remain more difficult to source. Few rural-focused investment funds exist beyond those that focus on acquiring farmland.

Several years ago, CoBank recognized this gap in access to capital for rural entrepreneurs and started to make investments in equity funds focused on rural America. Rural equity investments are an effective

source of junior capital to increase rural economic prosperity. These rural equity vehicles catalyze private capital investment and create jobs. And those jobs support the farms and communities across rural America.

One type of equity investment that CoBank has made is with Rural Business Investment Companies (RBIC), licensed by USDA. The Rural Business Investment Program was established by Congress in the 2002 Farm Bill to provide rural businesses venture capital and to encourage job creation. Nine of CoBank's 10 fund investments are in RBICs.

Since 2013, CoBank has committed \$154.5 million in 10 private equity funds in concert with Farm Credit institutions and other institutional investors: Midwest Growth Partners and Midwest Growth Partners II, West Des Moines, Iowa; Advantage Capital Ag Partners, St. Louis, Missouri; Innova Ag Innovation Fund, Memphis, Tennessee; Open Prairie Rural Opportunities Fund, Effingham, Illinois; Blue Highway Growth Capital Fund, Boston, Massachusetts and Philadelphia, Pennsylvania; Pharos Capital Partners Fund IV-A, Nashville, Tennessee and Dallas, Texas; Lewis & Clark RBIC Fund II, St. Louis, Missouri; Rural American Fund III RBIC, Chicago, Illinois; and Azalea Capital RBIC Fund, Greenville, South Carolina. Each of these funds has a slightly different focus to meet different needs. Today, over 70 rural businesses have received investments from these funds.

The first fund CoBank supported was in partnership with Central Iowa Power Cooperative, the Iowa Corn Growers Association and several individual investors to form Midwest Growth Partners. This \$41 million equity fund targets growth stage investments in the upper Midwest in manufacturing, food and agriculture and distribution and logistics businesses.

In Adel, Iowa, Inland Coatings, which was founded in 1978 in Waterloo, Iowa, received an investment from Midwest Growth Partners in 2014 to aid an ownership succession plan and facilitate expanding their business. The founder of Inland Coatings had died and the management team needed an equity infusion to purchase the company from the founder's heirs. One of the potential purchasers was a rival manufacturer and there was no commitment to keep the existing plant open. With the equity infusion from Midwest Growth Partners, the management team purchased the company, retaining and adding jobs in Adel.

There have been investments in companies in many states since that first investment. The following examples may be noteworthy to the Subcommittee.

In 2014, CoBank joined eight other Farm Credit institutions to launch the \$155 million equity fund, Advantage Capital Agribusiness Partners, focusing on investments that grow rural economies, with an emphasis on companies involved in all aspects of the food and agriculture value chain. The fund has invested over \$130 million in 16 companies in 13 states, including California, Florida, Georgia, Iowa, Missouri, Oregon, Texas, Virginia, and Washington. The remaining 13 companies employ approximately 1,900 people.

Prolific Earth Sciences, Inc., headquartered in Montgomery, New York, developed a field test that measures microbial biomass and provides the Fungal to Bacterial Ratio in soil. An RBIC invested \$50,000 in Prolific's series seed stock. The investment went towards helping Prolific get its operations up and running.

Nexyst360, Inc. in Rice, Minnesota developed a novel mobile, traceable storage container that creates a unique logistics solution for grains and specialty crops that lowers costs and provides farmers with direct access to global markets. An RBIC invested \$50,000 for future equity when Nexyst360 was moving through the patent process.

Fast Ag Holdings, LLC is a manufacturer of innovative liquid fertilizer applicators, sprayers, specialty trailers, tanks, and related agricultural equipment. It is located in Windom, Minnesota. An RBIC invested \$2 million of equity and also provided \$2 million in subordinated debt to provide capital needed to grow its operations.

JSI Store Fixtures is a Maine-based designer and manufacturer of high-quality merchandising displays for the supermarket industry. The company's product offering consists of display fixtures, patented merchandising foam products, and refrigerated displays focused on the store perimeter. The RBIC loan of \$9 million helped JSI to continue growing its operations. JSI sold in May 2021 and the loan was paid back in full.

In 2017, CoBank joined 12 commercial and community banks, 11 other Farm Credit institutions and other investors to launch the \$81 million Open Prairie Rural Opportunities Fund. Targeting companies with high growth potential, this fund has invested more than \$36 million in 11 companies making advancements in animal health and nutrition, precision agriculture, and bio-based materials among others.

In 2018, CoBank and 11 other Farm Credit institutions, along with Central Iowa Power Cooperative, institutional investors, and high net worth individuals committed \$113.5 million to Midwest Growth Partners II, an RBIC following a similar strategy in food and agriculture investing as its first fund. To date, 7 companies have received a total of \$46.7 million of growth capital to take them to a new level of operation and financial performance.

In 2019, Blue Highway Growth Fund, raised a \$41.8 million RBIC to invest in a diversified portfolio of companies principally located in the Northeast and Mid-Atlantic regions. The fund seeks attractive risk-adjusted rates of return for investors while making a positive impact in rural areas of the United States by making investments which create quality jobs and enable shared prosperity. CoBank, six Farm Credit associations, a number of foundations and banks are among the investor group. A total of \$9.7 million has been invested in three companies.

In 2019, CoBank and nine other Farm Credit institutions anchored Pharos Capital Partners Fund IV-A, which is raising a \$200 million RBIC focused on high-growth healthcare companies that improve patient outcomes, increase access to healthcare, and/or lower the overall cost of care.

These are just a few of the success stories from Farm Credit investments in RBICs and we believe more could be accomplished. CoBank continues to evaluate other RBIC opportunities to provide additional equity to rural economies and their communities. These rural equity investments to rural entrepreneurs create and retain jobs and sustain rural communities.

We are strong supporters of the Rural Capital Access Act, introduced by Senators Thune, Shaheen and Fischer. This legislation encourages Small Business Investment Companies to invest in rural businesses, while allowing RBICs, who do not currently receive a federal appropriation, to access leftover federal funds from the SBIC program. We believe that collaboration between the SBICs and RBICs, which are complementary programs, can be an opportunity for increased coordination between SBA and USDA and improved rural business success.

Summary

I appreciate your attention and consideration of these important issues that impact rural America. We spend every day looking for opportunities to get much-needed capital into rural communities and would welcome any additional thoughts on rural investment that you have. At a time when rural communities are doing their best to recover from the COVID-19 pandemic, we will continue to encourage more attention and investment into their longevity and success.

It has been a pleasure to appear before you, virtually anyway, to express support for the SBA Office of Rural Affairs and to discuss the need for more investment in rural communities as would be accomplished through passage of the Rural Capital Access Act.

I look forward to your questions.

US Congressional Committee on Small Business – Rural and
Agricultural sub-committee.

Hearing Testimony – July 13, 2021

Good afternoon and thank you for taking the time to listen to the voice of small business. My name is Alan Crawford, and I am the President and Owner of Rangaire Manufacturing Company located in Cleburne, Texas, a small community of about 30,000 people just south of the Dallas/Ft Worth.

Rangaire has been in operation since 1948. We are a classical, manufacturing facility where we punch, form, paint and assemble steel and plastic products for the residential housing market. It has endured many changes in ownership, product lines and economic challenges. During the economic turmoil and housing crisis of 2007-2008, the parent company of Rangaire consolidated many of their operations into our plant in Cleburne. I ran the operation for them when we transitioned from manufacturing ventilation products to medicine cabinets. When the product line continued to struggle, I purchased the business from my employer and in January of 2014, started my entrepreneurial dream of owning and operating a manufacturing business. My parents were both public school teachers. My father died when I was in high-school and my mother supported our household the best she could. With financial help from family, bank borrowings, savings – lots of hard work - and mostly God's providential hand, my employees and I have been able to make this opportunity grow and eke out a profit. At the time, we saved about 55 jobs. Today, we make products that support single family, multi-family and military housing all around the world. We have more than 300 customers in all 50 states and Canada. Our sales have grown more than 30% and we have 90 employees.

The tax savings from the 2017 Tax Cuts allowed us to invest in the business which contributed to this growth - until the COVID virus hit. While we took a significant hit to sales early in the pandemic, we were able to mitigate the impact to the business and ended 2020 with sales essentially flat from 2019. We utilized PPP funds to maintain our workforce, pay bonuses and extend paid leave so that our employees could take the time to deal with COVID in their own personal way.

Lately, the current economic environment has proved to be even more challenging than the pandemic. Our product line is not very glamorous, has low margins and is very fragmented with lots of competition. Our greatest competitive threat is from low cost, foreign manufacturers or large domestic producers that have a much broader product offering and are better capitalized. Tariffs imposed on foreign competitors have helped us immensely and delays in ocean freight and other logistical problems have driven even greater demand for our products. It's a good problem to have. However, the surge in commodity pricing has been nearly impossible to get in front of. Our material components such as steel, corrugated and plastic have seen cost increases from 15%-40%. We don't enjoy much pricing power on our products and consequently, our margins and cash flow are severely challenged in spite of the growth in top line revenue.

Other concerns arising this year have been supply shortages, longer lead-times and difficulty in finding labor. Labor has been a significant challenge both in finding adequate participants and meeting demands for higher wages. We are compelled to work overtime which drives up labor costs and decreases productivity. These challenges have made it difficult to meet our customer's

expectations and we risk losing them to other suppliers. Unlike businesses with proprietary products, our customers do have a choice.

Looming large is the uncertain but promised tax increases from the current administration. I'm concerned about losing the benefit of the bonus depreciation for capital investments. Texas' extraordinary population migration is causing real estate values to explode. The real estate assessed value on my business property has more than doubled – another unplanned tax hit. We continue to deal with the burden from the ACA with increasing costs of mandated health insurance. This regulation is a significant burden to a company the size of mine as we are just over the threshold to require company furnished health insurance, but still so small that these costs are a major blow to our bottom line. Even the slightest increase to costs like these may translate to 30, 40 or even 50% of our net profits.

I absolutely love being a small business owner, but I have to say, I lose a lot of sleep when thinking about making payroll, trying to mitigate cost increases and margin pressure. The impact of COVID has proven to me that businesses can survive and even thrive if we are allowed to pivot and innovatively solve problems. The sad truth over the last year has been that the businesses that have failed, in most cases, was not a result of their own decisions, but on edicts and mandates from local, state, and federal governments.

Thank you again for your time today.



**National Main Street
Center**
a subsidiary of the
National Trust for Historic Preservation



July 20, 2021

Committee on Small Business
Subcommittee on Underserved, Agricultural, and Rural Development
2361 Rayburn House Office Building
Washington, DC 20515-6315

Re: Rural American Recovery: The Role of Small Businesses and Entrepreneurship

Chairman Golden:

On behalf of Main Street America, I thank you for the opportunity to offer written testimony on the issues facing rural communities as they seek to support small businesses in recovery from the COVID-19 pandemic.

About Main Street America Communities

Main Street America (MSA), a program of the National Main Street Center (NMSC), is a nation-wide network of local community revitalization organizations with a 40-year track record of success: incubating new businesses, creating jobs, and attracting private investment to downtown business districts. The program was initiated by the National Trust for Historic Preservation in 1980 as a grassroots solution to rural disinvestment due to the development of interstates, the creation of shopping malls, and an increase in big box retail. NMSC deploys technical assistance, training and education, research, and advocacy to Main Street organizations to reverse economic decline and create a positive cycle of investment.

Today, the MSA network consists of over 1200 community-based Main Street organizations in forty-six states. As trusted, locally organized public-private partners, these entities are responsible for the economic and physical health of the Main Street business district, with specific focus on supporting the active use of all storefronts and upper story spaces. They also act as an on-the-ground resource for entrepreneurs, often filling a market gap in technical assistance support where other resources – including SBDCs and economic development entities – do not exist.

At the statewide level, Main Street America's Coordinating Programs are recognized as key economic development partners: providing resources, training, and development to local entities. With 70% of Main Street programs located in rural areas, MSA's network structure allows communities across the country collaborate on innovative strategies to create opportunity and build community wealth in some of the country's most economically disadvantaged locales.

Collectively, Main Street programs serve over 300,000 small businesses. Businesses in Main Street districts faced myriad struggles prior to the pandemic, including access to capital, workforce development, and competition from online retail. Most of these businesses have fewer than twenty employees, and over 75 percent are locally owned. To adapt to shifting economic conditions over time, these resilient businesses have often clustered together to pool shared resources around marketing and technical assistance. In a Main Street business district, many business owners are actively involved in their Main Street program as board members, supporters, and participants in downtown activities.

The Impact of COVID-19 on Rural Main Street Business Districts

Longstanding economic challenges for small businesses have been exacerbated by the pandemic and associated social precautions. The immediate need for closing retail operations or repositioning to meet safety needs left many struggling. As early as April 2020, Main Street America research indicated that 90 percent of Main Street small businesses had lost revenue due to the pandemic.

In response, Main Street programs emerged as front-line responders to the financial crisis facing small businesses, particularly in rural areas where other forms of support were limited through both geography and lack of access to technology. With an on-the-ground presence and pre-existing relationships, Main Street programs became centralized local hubs for dispersal of essential information on mandates and financial opportunities. In many communities, Main Street programs repositioned existing funds to create grants or revolving loans, working with their municipalities to target vulnerable entrepreneurs. As federal programs such as PPP and EIDL emerged, along with state programs funded through CARES Act, Main Street programs assisted individual businesses with navigating resources and advocating for policy adjustments to meet local needs.

The long-term impacts of the pandemic on Main Street business districts are yet to be fully understood. Recent Main Street America data indicates that almost 90 percent of Main Street districts lost at least one downtown business during the pandemic, and about 50 percent of districts lost three or more businesses. These losses may seem fairly modest, but in the rural context, each individual small business loss creates a ripple effect in the local economy through loss of sales tax, utility income, commercial rents, employee wages, local supplier income, and other business services.

Concurrently, because of changes in employment, low interest rates, and new market opportunities, Main Street communities experienced an increase in new business starts. These high entrepreneurship rates present an opportunity for Main Street districts to recoup pre-pandemic economic vitality but require a substantial increase in small business support services. As of June 2021, 80 percent of Main Street programs reported an increased demand for small business support services compared to pre-pandemic rates, yet 67 percent of Main Street programs have seen their budgets stagnate or decrease, leaving them less able to respond to the needs of both struggling legacy businesses and new entrepreneurs.

Supporting Small Businesses on Main Street

Main Street America's approach is interdisciplinary, focusing on coordinating multiple factors – including place, partnerships, regulations, and funding – to create resilient local economies. Aligning resources and eliminating hurdles for small businesses engenders an environment in which they can thrive. To facilitate small business recovery in rural Main Street districts, federal support must focus not only on individual financial assistance to entrepreneurs, but also the holistic development of entrepreneurial ecosystems that meet the diverse and changing needs of small business owners.

The American Rescue Plan Act provided for the Community Navigator Pilot program, which recognizes the impact of networks of organizations – such as business district entities – working collaboratively to deploy small business resources. We commend the Committee and Small Business Administration (SBA) for the formation and deployment of this new program and believe it has the ability to extend the reach of current SBA programming and create a multiplier effect for rural small businesses and the local “spoke” organizations involved. We support the permanence of this program after its initial pilot phase as these “spoke” entities will remain a needed support system for rural economies.

We also encourage the committee and SBA to focus on succession planning for current business owners as a part of their recovery programs. Pre-pandemic, the rates of retirement for baby boomer business owners were rising, and the majority of those entrepreneurs did not have a plan in place for the succession of their business. Anecdotally, many Main Street programs report that the businesses most susceptible to closure early in the pandemic were those that were already considering retirement. Many thriving businesses, particularly in rural areas, will vanish without intervention to encourage planning and capital access for interested buyers.

Finally, through the Office of Rural Affairs, we encourage SBA to work in concert with other federal agencies including USDA and EDA to address the interrelated needs of entrepreneurs and the place-based organizations that support them. Several barriers to access exist for individual rural communities to tap into SBA or other federal resources, including knowledge of federal programs, ability to determine which federal programs are applicable, and a resource scarcity to endeavor through an application process. The Community Navigator Pilot Program’s hub and spoke model is an excellent model for using existing networks to reduce these barriers and deploy resources to small businesses. We believe that this model could be expanded to funnel resources for broader community and economic development activities, including capacity building for business district entities, entrepreneurial ecosystem development, and small-scale civic infrastructure, such as placemaking activities that attract investment in rural downtowns.

Main Street America’s national network of business district organizations supports rural small businesses through both direct, one-on-one outreach and holistic downtown revitalization activities. These programs across the country are ready to help deploy SBA and other resources to ensure rural businesses can thrive. We appreciate the opportunity to submit this testimony on behalf of this network and will continue to support the work of this committee to help rural entrepreneurs thrive.

Sincerely,



Patrice Frey



3138 10th Street North
Arlington, VA 22201-2149
703.522.4770 | 800.336.4644
f: 703.524.1082
nafcu@nafcu.org | nafcu.org

National Association of Federally-Insured Credit Unions

July 12, 2021

The Honorable Jared Golden
Chairman
Subcommittee on Underserved, Agricultural,
& Rural Business Development
Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

The Honorable Jim Hagedorn
Ranking Member
Subcommittee on Underserved, Agricultural,
& Rural Business Development
Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

Re: Tomorrow's Hearing on the Rural American Recovery: The Role of Small Business and Entrepreneurship

Dear Chairman Golden and Ranking Member Hagedorn:

I am writing on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) in conjunction with tomorrow's hearing on the rural recovery from the COVID-19 pandemic. As you are aware, NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 125 million consumers with personal and small business financial service products. We thank you for providing credit unions with important tools, such as the Paycheck Protection Program (PPP), to help their small business members during this pandemic. We would like to take this opportunity to share other ways to help credit unions assist in strengthening the rural economy as the country recovers from the pandemic and beyond.

Credit unions have long been a critical provider of financial services to rural and underserved areas. As large and community banks have been shutting down branches and moving out of these areas, credit unions have been stepping up and expanding their presence to fill the void. In 2019, the Federal Reserve published a study detailing the dramatic decline in bank branches in rural areas. The study showed that 7 percent of rural bank branches were lost between the years 2012 and 2017 and that number has grown to 11 percent through 2019. Losses are not only concentrated among large banks, which lost 19 percent of their total rural branches, but also among community banks, which lost 5 percent. Credit unions, on the other hand, were the only financial institution that added branches in both rural and urban areas, demonstrating credit unions' commitment to their members and serving underserved communities.

TABLE 2.1: BRANCH CHANGES BETWEEN 2012 AND 2019

Institution Type	County Type	Starting branches	Ending branches	Net change	Percent Change
Large Banks	Urban	48,707	42,298	-6,409	-13
	Rural	6,479	5,267	-1,212	-19
Community Banks	Urban	23,798	22,240	-1,558	-7
	Rural	13,890	13,137	-753	-5
Credit Unions	Urban	17,513	17,599	+86	+0
	Rural	3,458	3,537	+79	+2

Notes: Urban counties are those that were part of a metropolitan statistical area in 2017. Excludes U.S. territories as well as counties that have undergone code changes. Bank branches are assigned according to the institution it last reported under. Community banks are those with assets below \$10 billion in June 2019 or the last reported total. Bank branches include only those coded as types 11 or 12 in the FDIC data.

The Honorable Jared Golden, The Honorable Jim Hagedorn
July 12, 2021
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As you consider ways to help rural areas, we urge you to consider a couple of measures that would help credit unions continue to serve rural and underserved areas. Specifically, we urge to you consider the following:

1. Allow all types of credit union charters to add underserved areas to their fields of membership. This commonsense proposal would allow credit unions to fill the void when banks leave rural areas, many of which meet the definition of underserved.
2. Amend the Member Business Lending (MBL) cap on federal credit unions. Currently, credit unions are restrained by an arbitrary cap on the loans they can provide to member businesses. Bipartisan legislation (H.R.1471) has been introduced to provide temporary relief from the MBL cap as a way to help small businesses recover from the COVID-19 pandemic.

These measures would arm credit unions with the tools they need to help rural areas without cost to the federal government. We thank you for the opportunity to re-iterate the important work credit unions have been doing and provide ideas on how to help them continue this work. Should you have any questions or require any additional information, please contact me or Lewis Plush, NAFCU's Associate Director of Legislative Affairs, at lplush@nafcuhq.org.

Sincerely,



Brad Thaler
Vice President of Legislative Affairs

cc: Members of the House Small Business Subcommittee on Underserved, Agriculture, &
Rural Business Development