

**FIELD HEARING IN PHILADELPHIA, PA: SMALL
BUSINESS CAPITAL ACCESS: SUPPORTING
COMMUNITY AND ECONOMIC DEVELOPMENT**

HEARING
BEFORE THE
COMMITTEE ON SMALL BUSINESS
UNITED STATES
HOUSE OF REPRESENTATIVES
ONE HUNDRED FIFTEENTH CONGRESS

FIRST SESSION

HEARING HELD
OCTOBER 20, 2017



Small Business Committee Document Number 115-042
Available via the GPO Website: www.fdsys.gov

U.S. GOVERNMENT PUBLISHING OFFICE

27-253

WASHINGTON : 2018

For sale by the Superintendent of Documents, U.S. Government Publishing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
Fax: (202) 512-2104 Mail: Stop IDCC, Washington, DC 20402-0001

HOUSE COMMITTEE ON SMALL BUSINESS

STEVE CHABOT, Ohio, *Chairman*
STEVE KING, Iowa
BLAINE LUETKEMEYER, Missouri
DAVE BRAT, Virginia
AUMUA AMATA COLEMAN RADEWAGEN, American Samoa
STEVE KNIGHT, California
TRENT KELLY, Mississippi
ROD BLUM, Iowa
JAMES COMER, Kentucky
JENNIFFER GONZÁLEZ-COLÓN, Puerto Rico
DON BACON, Nebraska
BRIAN FITZPATRICK, Pennsylvania
ROGER MARSHALL, Kansas
RALPH NORMAN, South Carolina
NYDIA VELÁZQUEZ, New York, *Ranking Member*
DWIGHT EVANS, Pennsylvania
STEPHANIE MURPHY, Florida
AL LAWSON, JR., Florida
YVETTE CLARK, New York
JUDY CHU, California
ALMA ADAMS, North Carolina
ADRIANO ESPAILLAT, New York
BRAD SCHNEIDER, Illinois
VACANT

KEVIN FITZPATRICK, *Majority Staff Director*
JAN OLIVER, *Majority Deputy Staff Director and Chief Counsel*
ADAM MINEHARDT, *Staff Director*

CONTENTS

OPENING STATEMENTS

Hon. Brian Fitzpatrick	Page 1
Hon. Dwight Evans	1

WITNESSES

Ms. Dafina Williams, Vice President of Public Policy, Opportunity Finance Network, Philadelphia, PA	4
Ms. Leslie Benoliel, President, Entrepreneur Works, Philadelphia, PA	7
Mr. Lin Thomas, Chief Executive Officer, EMSCO Scientific Enterprises, Inc., Philadelphia, PA	10
Mr. Steve Dorcelien, Owner, Bright Yellow Creamery, Philadelphia, PA	13

APPENDIX

Prepared Statements:	
Ms. Dafina Williams, Vice President of Public Policy, Opportunity Fi- nance Network, Philadelphia, PA	27
Ms. Leslie Benoliel, President, Entrepreneur Works, Philadelphia, PA	36
Mr. Lin Thomas, Chief Executive Officer, EMSCO Scientific Enterprises, Inc., Philadelphia, PA	41
Mr. Steve Dorcelien, Owner, Bright Yellow Creamery, Philadelphia, PA ...	44
Questions for the Record:	
None.	
Answers for the Record:	
None.	
Additional Material for the Record:	
None.	

SMALL BUSINESS CAPITAL ACCESS: SUPPORTING COMMUNITY AND ECONOMIC DEVELOPMENT

FRIDAY, OCTOBER 20, 2017

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,

Philadelphia, PA.

The Committee met, pursuant to call, at 2:45 p.m., in Studio C at the Enterprise Center, 4548 Market Street, Philadelphia, PA, 19139, Hon. Brian Fitzpatrick presiding.

Members present: Representatives Fitzpatrick and Evans.

Mr. EVANS. I would like to say good afternoon to you, and it is my pleasure. First, I would like to thank the chairman—first, I would like to thank Mr. Fitzpatrick for being here today and taking the time to visit my district to hear the stories of local small businesses. It is great to be here, and he will call it to order.

Mr. FITZPATRICK. Okay. Good afternoon. I call this hearing on the House Committee on Small Business to order, and before we begin, I want to thank Mr. Evans for inviting me to be in his district, and I can tell you, as a fellow freshman colleague of Mr. Evans, not only is he a phenomenal legislator, he is an even better human being. Huge heart, and it is just an honor to serve with him in Congress. While we may be from different political parties, we are both proud Philadelphians and enjoy working in a bipartisan manner in our Committee for the owners and employers of southeastern Pennsylvania.

To give you a little bit of background on the nature of the bipartisanship between our members, every single bill we have passed through our Committee has been voted on unanimously. That is not always the case with other Committees in the House. Quite frankly, it is refreshing. Dwight and I have worked together on numerous pieces of legislation, and I thank him for his leadership on this Committee. So again, I appreciate his invitation, and I am looking forward to hearing the testimony of our witnesses.

Being a small business owner in America is a very tough job. No matter what your business, you must wear many different hats. In addition to doing what you went into business for in the first place, you probably have to tackle responsibilities such as a tax accountant, advertising executive, regulations expert, fundraiser, and human resources expert as well. Yet throughout our history, entrepreneurs in America have done all these things, and more. But to be in business, there is one thing that is necessary above all else, and that is access to affordable capital. It is the fuel that each and

every small business needs to move forward. From the neighborhood ice cream parlor to a local manufacturer, to the high tech research and development company, access to capital is paramount. Our Nation's entrepreneurs and small businesses continue to experience a difficult lending environment, which is at best stagnant. In fact, recent research has shown that the total value of loans by small domestic banks has remained flat since the recession and depressed compared to levels before the recession.

All too often, small firms cannot access conventional lending, so they have nowhere to turn for the capital to grow their businesses and to create jobs. Despite being credit-worthy, they are often not—do not have the proven track record for traditional lending. With limited options in conventional markets, more and more small businesses are turning to the Small Business Administration's lending programs as a means to help finance their dreams. From the flagship 7(a) and the 501(c) CDC programs to the microloan SBIC programs, there are many options at the SBA to help small firms find affordable capital products.

While by and large these programs seem to be doing well, we can always do better. The more capital we free up for deserving small businesses, the faster our economy will grow, and the sooner our communities will be revitalized. That is why we are here today. We want to hear your stories and hear your recommendations that can help improve access to capital. I am a firm believer that the best ideas in Washington don't come from Washington. They come from folks like you, and I am eager to discuss these critical issues with you today.

And with that, I want to thank you all for taking time out of your undoubtedly busy schedules to be here today, and I now yield to Ranking Member Mr. Evans for his opening remarks.

Mr. EVANS. Thank you, Mr. Chairman.

I want to thank the Chairman as someone who is a neighbor. He is from the 8th Congressional District, and we are really more than just professional friends, we also are real personal friends. We have worked together in the short period of time we have both been there, and this is the thing that needs to happen in Washington. People working together from the bottom up.

As the economy continues to strengthen, more entrepreneurs will seek capital to start ventures to expand existing businesses. Traditional lending sources often ignore many communities around the country, resulting in small firms utilizing other financial programs. Today's hearing will explore those programs promoting affordable lending, investing products, and often firsthand account for local small businesses.

At the federal level, the SBA provides entrepreneurs with access to capital by the extension of guaranteed loans through such as the flagship 7A program. But while the overall number of loans have increased, the percentage going to minorities and women only firms has remained fairly consistent since 2010, and is lower than before during the recession. This is—and this is a consistency that we have heard at hearings at roundtables by the Committee. That is why as Democratic members of this Committee, we have emphasized that lending to women and minority-owned businesses must be improved.

The Microloan Program has been recognized by members of the Committee as a way to improve lending. The need for more small business dollar loans is really particularly among the most underserved markets. Nearly 50 percent of the SBA microloans have gone to women-owned businesses, 20 percent to Hispanics, and more than 25 percent to African Americans. This program was specifically designed to reach those that can't qualify for traditional financing in order to fulfill and develop their chances at success. Thus by recently passed legislation increasing the intermediary loan limits for the microloan, we have extended the reach of the SBA programs.

Mission-based lenders such as CDFIs and certified development companies also play an intricate role in the small business lending space. As they focus on expanding economic opportunities in their communities, their work has benefitted a great number of communities across the country, and through 2017, originated more than \$42 billion in financing in urban, rural, and native communities.

Lending outside the traditional consumer banking, better known as FinTec, has become increasingly popular for small businesses. And while the speed and the flow of capital may be an advantage, we must work to ensure that proper protections are in place for that. For this very reason, the Committee intends to continue to engage small businesses in the lending in this topic.

Another key aspect of capital financing is equity investment. While traditional debt financing tends to cater more to established small firms, start-ups may lack adequate revenue streams and credit history. Angel Investing, Venture Capital, regulatory investment funds like small business investment companies, all target new and early stage firms. And like other forms of capital, there remains an unmet need for those types of finances for small businesses.

With these various areas of lending and investing in mind, today's hearing will provide the opportunity to explore what works and where improvement can be made. Overall, this Committee seeks to ensure that mechanisms are in place to promote the growth, development, and continued success of small businesses. I look forward to hearing from our witnesses and gaining insight into their experiences.

I thank you all and yield back the balance of my time, Mr. Chairman.

Mr. FITZPATRICK. Thank you, Mr. Evans, and if Committee members have opening statements prepared, I ask they be submitted for the record. That is just a procedural thing I need to say in case anybody back in Washington wants to add anything to our hearing for the record today.

I would like to take a moment to explain the timing lights for you. You will each be afforded 5 minutes to deliver your testimony. The light will start out as green, and when you have 1 minute remaining, the light will turn yellow. Finally, at the end of your 5 minutes, the light will turn red. I ask that you try to adhere to the time limit, but given the fact that there are just a few of us here, we will be very lenient with those instructions.

So I believe we will start with Mrs. Williams—oh, Mr. Evans.

Mr. EVANS. Thank you. Thank you, Mr. Chairman. To give you a little background on Mrs. Williams. Mrs. Williams is vice president for the public policy at the Opportunity Finance Network, the leading national network of Community Development Financial Institutes, CDFIs. She joined the Opportunity Finance Network in 2006 and leads the organization in policy development around housing financing, small business lending, healthy food financing, and coalition building. She also manages the organization's regulatory advocacy, state and local policy efforts. She has presented at numerous industry conferences and contributed to several community development financial publications. She also graduated Magna Cum Laude from Temple University. She received a BBA in economics. In her spare time, she serves on a Board of the Friends, an international nonprofit providing access to quality education in Latino America. And as a member of the city's Millennium Advisory Committee, we welcome Ms. Williams.

STATEMENTS OF DAFINA WILLIAMS, VICE PRESIDENT OF PUBLIC POLICY, OPPORTUNITY FINANCE NETWORK, PHILADELPHIA, PENNSYLVANIA; LESLIE BENOLIEL, PRESIDENT, ENTREPRENEUR WORKS, PHILADELPHIA, PENNSYLVANIA; LIN THOMAS, CHIEF EXECUTIVE OFFICER, EMSCO SCIENTIFIC ENTERPRISES, INC., PHILADELPHIA, PENNSYLVANIA; AND STEVEN DORCELIEN, OWNER, BRIGHT YELLOW CREAMERY, PHILADELPHIA, PENNSYLVANIA

STATEMENT OF DAFINA WILLIAMS

Ms. WILLIAMS. Thank you. Good afternoon, Representative Evans and Representative Fitzpatrick. Thank you for holding this hearing on small business capital access. My name is Dafina Williams, and I am Vice President of Public Policy at Opportunity Finance Network, and I am pleased to be here today to testify not only on behalf of OFN, but also as a constituent of the 2nd District of Pennsylvania.

OFN is a national network of CDFIs, mission-driven community banks, credit unions, loan funds, and venture capital funds investing in opportunities that benefit low income and low wealth, and other under-resourced communities. CDFIs are financial intermediaries that connect communities to capital that creates jobs, supports small businesses, builds affordable housing, cultivates healthy food and energy efficiency, and promotes safe borrowing and lending.

Currently, there are more than 1,100 CDFIs certified by the Department of Treasury's CDFI fund. CDFIs in OFN's network alone—that is about 230 of the 1,100—have originated more than \$54.9 billion in financing in urban, rural, and native communities through 2016. With cumulative net charge-off rates of less than 1 percent, CDFIs have proven that they can lend both responsibly and effectively in under-resourced communities.

Today, I would like to provide an overview of some of the challenges facing small businesses in accessing credit, how CDFIs are helping to address these challenges, and the role that the federal government can play in providing resources that further stimulate that flow of capital.

Although lending conditions have remained relatively stable for the past several years, credit standards for loans have remained tight since the Great Recession. Less credit-worthy borrowers, like those in communities disproportionately impacted by the financial crisis, face significant challenges to accessing capital to grow or start their businesses. For women-owned and minority-owned small businesses, these challenges are even more pronounced.

However, there proven solutions to meeting these challenges: specialized targeted lending, technical assistance, and community partnerships can help improve capital access, create new markets for small businesses, expand networks, strengthen the borrower to traditional lender relationships, and support broader economic development goals.

Small businesses are an important driver of economic growth, but they face both macroeconomic and microeconomic challenges when attempting to access credit. Some of these challenges include contractions in the banking system and lending to small business, a decline in the availability of small dollar loans, weak or limited credit history, lack of business and financial management skills, access to entrepreneurial networks, and limited awareness of lending options. These barriers are, of course, particularly high for entrepreneurs who are low to moderate income, women, racial minorities, and other traditionally disadvantaged populations.

So a little bit about some of the macroeconomic conditions. U.S. bank branches closed about 4,800 branches between 2009 and 2014. This has created banking deserts, which has particularly impacted low income communities, rural communities, and communities of color, limiting access to basic financial services, as well as credit.

A decline in the number of bank branches and community banks impacts the availability of credit to small businesses who typically rely on relationship lending from their local lenders. In 2015, both the number and dollar amount of CRA reported loans to small businesses with revenues under \$1 million had declined 40 percent below their 2007 levels. There has also been a decline in the availability of small dollar loans. The number of CRA reported loans of less than \$100,000 in 2015 was 58 percent lower than it was in 2007, even as demand for these loans remains high. The Federal Reserve's 2016 Small Business Credit Survey found that 55 percent of applicants actually sought less than \$100,000 in finance, so there is a huge credit gap there.

I am going to let my colleague, Leslie, talk a little bit more about some of the microeconomic issues impacting some of these small businesses, but I will move on a little bit to talk about online lending.

For a lot of small businesses as the brick and mortar financial institutions continue to retract and close, they are left with few options and a lot of them are turning to new online lenders who have entered the marketplace. And to an extent, these lenders—they are filling a gap and they are providing access to financial credit and services. However, some of these online lenders are providing high cost loans targeting the most vulnerable small businesses with little transparency about loan pricing and terms up front. Online lenders may make it fast and easy to get capital, but they certainly

don't make it cheap. Often, small business owners are not aware that they may have other affordable options available to them, or that responsible lenders like CDFIs even exist.

Another thing to consider is that racial and gender-based biases can also prevent small businesses from entering mainstream lending. Even when controlling for things like personal wealth and credit scores, people of color and women are disproportionately denied financing at rates higher than their white male counterparts.

Despite these challenges, underserved businesses continue to grow and create jobs. A boost in local small business ownership can have a positive impact on the economic development of our region. Analysis of U.S. Census data shows that the greater Philadelphia area actually lags behind other large metropolitan areas when it comes to the rate of growth in small businesses. Additional investments and proven solutions and programs like those that support the work of CDFIs will stimulate the flow of capital to business owners, generating economic activity that can catalyze community development, create jobs, generate income and wealth, and help chip away at the city's persistently high poverty rate.

CDFIs are an important part of the small business lending ecosystem. They provide capital to businesses that cannot access traditional financing. For small businesses with financial impediments to securing financing, like lack of collateral, cash flow challenges, modest business revenues, CDFIs address these issues by providing a variety of financial products, including working capital, equity investments, bridge loans, senior unsubordinated debt, sometimes at below market rates and with lower and fewer fees than what is traditionally available in mainstream lending, and also with more flexible underwriting criteria, credit standards, collateralization, and debt service requirements.

But CDFIs also recognize that not all the challenges facing small businesses are financial. Some of them have to do with the financial and business management and provide—that businesses have, and so to address this issue, CDFIs also provide technical assistance and development services to their lenders. So that means they are taking a holistic approach to looking at the business, identifying not only what the financial weaknesses are, but also looking at where they might need help with their accounting or their payroll, or some of these other non-financial issues that will really help the business be not only ready to take on financing, but also to ensure that they are able to be successful once they are able to get a loan.

So there are a couple of ways that the federal government can support the work of CDFIs. There are a few programs that you mentioned already through the SBA, but there are a couple more. The first is the Treasury Department's CDFI Fund. This provides patient, flexible equity capital to CDFIs that allows them to go out and attract private sector capital that allows them to then amplify the impact of their lending. For every dollar of CDFI fund awards that is provided by the federal government, CDFIs generate an additional \$12 in economic impact. The Markets Tax Credit Program is also an important source of private sector financing, but is set to expire in 2019 and its future is currently uncertain as Congress considers tax reform. We also would hope that the Community Ad-

vantage Program pilot program at the SBA would be made permanent. Currently it is also set to expire in 2020. And that there will be continued expansion of the Microloan Program and the technical assistance that it provides to the SBA. We also think that another round of funding through the state Small Business Credit Initiative, which is a \$1.5 billion lending program created through the Small Business Job Act of 2010 would also help increase the flow of capital to underserved businesses. That \$1.5 billion was actually leveraged to provide about \$10.7 billion in total financing, and more than 40 percent of that capital went to underserved businesses across the country. And finally, strong borrower protections are key to ensure that small businesses have full disclosure of understanding of fees, terms, and pricing of any of the loan products that they are accessing. Without these sort of protections in place, business owners are often susceptible to predatory lenders or on-line lenders, and currently, these protections do exist in the mortgage lending and consumer finance space, but no current protections exist for small business borrowers of that same nature.

So thank you for the opportunity to testify today, and I would be happy to take any questions.

Mr. EVANS. The next person—this is the first time, Benel, right, Leslie?

Ms. BENOLIEL. Benoliel.

Mr. EVANS. Benoliel—is the President and CEO, of Entrepreneur Works, a not for profit organization that provides comprehensive business training, business advisory service, microloans to entrepreneurs and small business owners of low income, minority, immigrants, and other underserved throughout the greater Philadelphia region. Combined over 30 years of banking and community development experience, Leslie has built Entrepreneur Works into an effective, nationally recognized, high impact micro financing and small business development. She has successfully implemented several national small business initiatives that brought new corporate resources to invest in a region—community. Starbucks—created jobs. That is a long list. Leslie has served on the boards of Pennsylvania Minority Enterprise Coalition, Sustainable Business Network of Greater Philadelphia, and currently serves on the advisory committee of the Philadelphia Office of Community and Economic Development.

STATEMENT OF LESLIE BENOLIEL

Ms. BENOLIEL. Thank you. Good afternoon Representative Evans and Representative Fitzpatrick, and members of the Small Business Committee. Thank you very much for this invitation. It is a great honor. I am also a constituent of the 2nd Congressional District. My name is Leslie Benoliel. I am the president and CEO of Entrepreneur Works. We are a nonprofit CDFI that provides access to loan capital and business training to entrepreneurs and small business owners throughout the Philadelphia region. We serve between 200 and 300 entrepreneurs a year, and primarily in underserved communities. Our constituents are 84 percent minority, 68 percent low income, and 60 percent women.

I am here today to express how critically important it is to support small businesses and to ensure that they have better access

to capital. As it has been mentioned before, and you know very well in this Committee, small businesses are vital to and are a key segment of our region and our national economy. Small businesses—and those are 500 employees or less—represent by far the largest proportion of all firms, private sector firms, 99 plus percent, and they account for roughly half of all private sector jobs. This is true of Pennsylvania and the Philadelphia region.

It is widely known that small businesses are the largest creators of jobs in the U.S. year after year, and SBA data supports this. That said, small business owners are at a disadvantage. The Philadelphia area ranked 31 out of 40 large U.S. metropolitan areas for start up activity, according to the Kaufman Foundation Index of Start Up Activities.

Who are these small businesses? Well they are your childcare providers, coffee shops, food trucks, dry cleaners, landscapers, barber shops, professional and health providers, and we see them throughout our neighborhoods and our communities, on and near commercial corridors, corridors such as Germantown Avenue, East Oak Lane in west Philadelphia. We see, engage, and rely on these small businesses every day. They are the lifeblood of our neighborhood economies. So I will offer several reasons why I think small businesses are so important.

They provide valuable goods and services. Small businesses create jobs and they—research has shown that small businesses that are in our communities mostly hire from the communities that they serve. Small businesses keep the money that they make circulating locally. Small businesses generate tax revenues, and small businesses make our neighborhoods and communities more vibrant, diverse, and interesting, thereby attracting visitors, new residents, and bringing in investment. Small businesses create wealth for their employees and for themselves, and this is especially critical in our lower and disadvantaged communities.

Entrepreneurship is a viable and critical path to break the cycle of poverty and for improving economic self-sufficiency. Research shows that there is a substantial wealth advantage for those that are business owners compared to those that are not, and this is especially pronounced among minorities and women. An AEO study, Association by Enterprise Opportunity, done a few—couple years ago shows that the median net worth for black-owned businesses is 12 times higher than for black non-business owners. Furthermore, minority and women-owned business creation rates are far exceeding those of non-minority and men. And immigrant-owned businesses are rapidly on the rise as well.

So there are persistent barriers that stymie small business growth, especially among underserved populations. Three major factors are low starting wealth, limited access to credit, and a trust gap. Access to capital is chief among these needs. Small businesses that—many small businesses, and this is especially true of underserved, do not meet bank and traditional financing standards. They have low credit scores, insufficient collateral, and limited equity to put in the business. Minority business owners face deep barriers—steeper barriers than their white counterparts. With fewer assets and less disposable income, they don't have the resources to invest in their businesses, enough runway to get them off the ground, and

not enough assets to leverage other resources. Furthermore, banks are reluctant to make the smaller loans. Typically—they may say but they often don't make loans less than \$50,000, and some don't make loans less than \$100,000 to small businesses. They say it is unprofitable.

Minority business owners also feel intimidated by banks, according to surveys. It is especially acute among black business owners. They tend to get discouraged and they do not feel welcome, and that is that trust gap that I mentioned.

Business owners are increasingly turning to these online lenders, the thin tech lenders, and many of these alternative lenders are predatory and onerously expensive. The unsuspecting, uninformed borrower can easily get caught in a debt cycle, leaving them in worse financial shape, and this is where we can—CDFIs like Entrepreneur Works and the Enterprise Center Capital Group can play an important role. We provide a lot more than just capital. We provide the trusted guidance, the technical assistance, either directly or partnering with other community-focused organizations such as women business development centers and small business development centers, to help business owners navigate the complexities of owning and starting up a business. And I would like to emphasize this point. The capital needs to be coupled with this technical assistance to ensure better success rates of the business, and Dafina mentioned this in her testimony. With TA, technical assistance, the small business owners are better prepared to take on a loan, are better prepared to use the capital to build their business, and they are better able to pay the loan off and thus access to other resources.

CDFIs, WBDCs, and SBDCs form the foundation of a vast network of business support and business capital. We are embedded in our communities. We have a deep understanding of the needs and challenges, and we are trusted partners. Support for programs such as—support from programs such as those from the CDFI Fund and the Small Business Administration are so critically important and have allowed us to reach hundreds and help hundreds of entrepreneurs a year. And furthermore, we are very effective at leveraging private sector dollars in combination with these public dollars.

So what else can we do to unleash the economic potential of small businesses? I want to offer just a couple of other promising solutions. We need to help individuals build their assets with asset building tools, IDAs, individual development accounts are an example. Greater assets allow these entrepreneurs with more runway capital, more room to get off the ground. They also need patient capital, equity, and these can be in the form of innovative lending programs that include forgivable loans, loan guarantees, and loan equity blends. So they need more runway capital, they need more patient capital so once they get off the ground, they can stay off the ground.

Crowdfunding is an interesting delivery model that is just coming into play. I think that merits some further look as a way to target specific populations, and of course, greater support for the non-profits that work with these small business owners. We have a

good track record. We don't—we want to continue that work. We want to be able to do more work.

So in closing, I want to just emphasize that small businesses are indeed the engine of our economies. It is imperative that the public, private, and nonprofit sectors work in concert to support the growth and sustainability of our small businesses, and especially for our underserved populations. So I would like to commend the Small Business Committee for your efforts to raise the awareness about the disparity of access and capital, and for your work to ensure that all businesses can grow and prosper. Thank you.

Mr. EVANS. Mr. Chairman, you have now heard sort of the mechanism—and as you know, we talk a lot about the access of capital and availability. You have heard that and I think both have done a great job.

Now we are going to go to two entrepreneurs, and it is important for the entrepreneurs to give their perspectives and outcomes.

The first one is Mr. Thomas. He has two dynamic enterprises, one called ESCO?

Mr. THOMAS. EMSCO.

Mr. EVANS. EMSCO Scientific Enterprises, and the other one is called?

Mr. THOMAS. SUPRA Office Solutions.

Mr. EVANS. SUPRA Office Solutions. It is a laboratory and pharmaceutical supply company founded in 1980 which serves university and national enterprises. The office product company serves national and small, large corporations and is headquartered in Philadelphia. Prior to his current position, he served several top positions over a span of 15 years of Alpha Office Supply, headquartered in Philadelphia, and before Alpha, Mr. Thomas served as a managing partner for over 10 years as tax and financial consultant. Lin attended the Kellogg School of Management of Northwest University, and has a Bachelor of science degree in accounting from Morgan State University.

Mr. Thomas?

STATEMENT OF LIN THOMAS

Mr. THOMAS. Good afternoon, Congressman Evans, Congressman Fitzpatrick, Committee—U.S. Committee chair, as well as my fellow colleagues here today. It is an honor to represent small businesses, and I want to just start off by saying that I want to incorporate the comments by Ms. Williams and Ms. Benoliel as—and the recommendations that I think are very, very relevant having been an entrepreneur and having to have developed a small business. I want to also indicate that this very same Committee here speaking today in my career, I worked for Congressman Parren J. Mitchell, who in 1983, '82, during that period of time was the Chairman of the U.S. Committee on Small Business. So within my career, I did work for the Committee on Small Business in Washington, D.C.

I just want to start off by making a few comments. Let me just adjust my glasses here. I have worked as an accountant, generally speaking, for years and I have had a host of minority business clients, and also worked as a consultant for PMBDA, the Pennsylvania Minority Business Development Authority, our firm that was

responsible for financing and—as a financial consultant to that agency. We were sort of the group that analyzed their loan projects for providing technical assistance and financing to minority businesses. This was during the late '90s—no, the early '90s, pretty much during the Casey Administration.

My experience afforded me the opportunity over the years to have worked with smaller enterprises that maybe only had capital of—or sales of \$5,000 or so a year, and over the course of my experience, I have had some interactions with larger enterprises with sales as much \$100 million a year.

Most importantly, significantly to me is that perhaps 50 of smaller minority businesses that I have interacted with over the years, I have witnessed that withered or died on the proverbial vine because of a lack of access to capital, and that was very discouraging. Individuals that had phenomenal opportunities to grow, develop various enterprises that could have had a significant impact on jobs and opportunities, and essentially it was only because of a lack of capital that these businesses either didn't get the funding that they needed as talked about as the runway funding, or the more patient capital that they needed to extend. And that is discouraging, very discouraging. Conversely, I experienced a period in my career where I witnessed the positive results and meaningful, favorable economic impact of businesses that were created, fostered, revived, and thrived as a direct result of a receipt of capital via economic development enterprise funds, primarily received, in those days, from the Commonwealth of Pennsylvania as well as from the City of Philadelphia. And these funds were funds that were provided absent the stringent typical underwriting criteria of most banking institutions. They were funds that were provided where there wasn't—they were not 100 percent collateralized or innovative collateral approaches were instituted for the funds where the owners didn't have A-1 capital or credit, rather, ratings. They had, in fact, depressed credit ratings. But where what was looked at was the potential of their enterprise, the opportunity of that enterprise to generate jobs, and that there was a good sales or a good business projection program that was offered for that business opportunity.

Simply stated, I just want to place in the record a few observations over the years. One, small businesses provide the jobs, and that has been stated, more jobs directly in America. There is no such thing—and this is important—as the growth and development of small businesses absent increased innovative, and relaxed main-line bank underwriting for small businesses. Okay. You will not be able to support small businesses without innovative, relaxed underwriting criteria for these small businesses. Also, there likely does not exist any—in any business bank portfolio—and this is what I have learned also. There is always—we talk about whether or not there is a high delinquency of default rate with small businesses. There is, in fact, a relatively high delinquency and default rate with large business portfolios. There is no portfolio that I have ever seen for financing opportunity that does not have D&D, or write-off.

Now what do the banks do? Typically, imagine 1,000 loans in a portfolio. If there are, let's say, 50 of those loans that are non-performing in that active portfolio, the bank typically takes those

loans out of the active portfolio and they place them in work-out. So they are no longer calculated in the calculation of D&D rate, okay, and once they work out these loans, either write them off or do whatever they are going to do, or restate those loans and place them back in the active portfolio, the bank produces a portfolio that appears acceptable. This doesn't necessarily happen with most of the smaller loan programs. So there is a tendency to say that there is a higher rate of delinquency and default. We did a study with the State's programs and once we restated loans that had been placed in that portfolio for years, that portfolio performed just as effectively as the average bank at the time.

Small businesses must be offered the opportunity to be created—excuse me, I have some gum in my mouth. I apologize for that. Small businesses must be afforded the opportunity to be created, grow, and contribute to the economy as in any loan portfolio. Some will fail. Some will falter and recover. Some will grow, thrive, and make major contributions and reinvestments in the economy. Absent access to capital with slightly relaxed or more innovative underwriting criteria, these potentially phenomenal contributors to our existence and economy will likely never come into being or development.

What are some of the methods—and thank you, Congressman Evans, for mentioning the microloan funds and some of the other funds that exist within the SBA portfolio. One of the other big problems is a lack of communication to the individuals that would best benefit from what does exist, and I would suggest that SBA very seriously look at advertising on urban radio stations and that we look at advertising in minority or minority traditional newspapers, we look at advertising in minority or oriented TV shows, and social media. It is important to communicate what is available to the individuals where they are that need the resources that are relied upon through this agency, as well as the fact that we need to extend further opportunities.

In closing, I just want to state—utilize two quotes, and perhaps they will be considered relevant here. One is “What happens to a dream deferred? Does it dry up like a raisin?” That is Langston Hughes. Paraphrase, a dream deferred is a dream denied. Alternatively, “Give me a lever long enough and a fulcrum on which to place it, and I shall move the world.” That is Archimedes. So if we are—if we—one, if we deny minority businesses the access to capital, we are killing opportunities that exist for so many people that is needed today, and number two, if we provide access to capital, we can move the world. Thank you very much.

Mr. EVANS. Thank you. Mr. Chairman, this next person I am going to introduce, I overheard in the audiences that people were looking for samples of his product. I just said, Mr. Chairman, I have never tasted it. This is the first time meeting him. Steven Dorcel?

Mr. DORCELIEN. Dorcelien.

Mr. EVANS. Dorcelien—founder and owner of Bright Yellow Creamery, is a graduate of Seton Hall University and earned his MBA from the University of Connecticut. Prior to Bright Yellow Creamery, he was a business development and lead at a Global Law Firm in New York City.

Steven started Bright Yellow Creamery with a vision of serving a delicious treat as pure as possible through simple process and real ingredients. That is important, real ingredients. To hone his skills in creating and operating an ice cream business, he attended and completed Penn State ice cream short course in early 2017. Bright Yellow Creamery is now served at many of the largest farmer markets and gourmet grocery stores in Philadelphia. Steven currently resides in Philadelphia, PA, with aspirations of opening his first brick and mortar in 2018, and maybe he can open it up in the 8th.

Mr. FITZPATRICK. That would be great. Thank you.

Mr. EVANS. Steven?

STATEMENT OF STEVEN DORCELIEN

Mr. DORCELIEN. Thank you. First, I would like to apologize for not bringing any, but needless to say, hi, I'm Steven Dorcelien. I would like to thank Representative Fitzpatrick and Representative Evans for having me today, as well as the Committee and the Enterprise Center.

My journey up to this point has been a few years in the making, and many hurdles in between. They say it takes a village to raise a child. I say it takes the same to raise a small business. I have been lucky enough to have had a village help raise the artisanal ice cream company I always dreamed of having, but it hasn't been easy.

My journey started roughly 2 years prior to launching Bright Yellow Creamery. Before stepping into the entrepreneurial world, I always envisioned opening my own cafe as I worked tirelessly for one of the largest law firms in the world. With a clear goal in mind, and the knowledge of how tight access to capital would be for new, and what banks would call "high-risk" companies, I accelerated my savings by picking up a second job on weekends, renting my apartment out for additional funds, and diverting my retirement contributions to low interest bank savings. The approach not only came at the expense of leisure but also the long-term safety net of retirement planning. But I knew the gamble before I served my first ice cream cone. I knew that there was a facade around the level in which major banking institutions would cater to small businesses.

I quickly found out that despite a near 800 credit score, 2 years worth of savings, a post-graduate business degree, and a clear and concise business plan, I was simply too "high-risk" for traditional institutional lending. The nostalgic image of a young person going to their neighborhood bank for a loan to open their first business was met with a harsh reality. Without years of business returns and substantial collateral, the funds I had saved or risky online lending, as some of the folks had mentioned today, would be my only option. I truly bootstrapped with our first piece of equipment and our mobile vending unit nearly depleting all I had.

Despite this, I have been fortunate. Contrary to what most financial advisors would recommend, I have been fortunate being in this situation that allowed me to pour out my retirement to jumpstart my dreams, while many don't share these luxuries.

I met quite a few fellow entrepreneurs in the walls of the Enterprise Center, many of whom have families to provide for, loved ones to care for, and dreams worth chasing. The money that they may have used for some form of savings, however, are used for basic necessities in life. They, like me, aspire to use their business as a vehicle to vitalize their community and create jobs.

This shared mindset is one of the reasons why I have used Philadelphia's Enterprise Center as the backbone of my business. Their efforts in assisting minority enterprises with business resources and support is what drew me in to being a part of their organization, and their food business incubator gave me the space I needed to make—and I am a little biased, but some of the best ice cream in the city.

My journey has been viable and certainly worthwhile thus far, mostly emotionally. Yet, I continue to find myself in the same shoes as many others in our inability to tap into traditional bank lending for continued acceleration. The ability to purchase larger equipment, hire staff, and secure a brick and-mortar location are natural progressions for any business with aspirations of growth, but with limited options to capital, slow growth appears to be the only way for some of these companies to move forward.

These businesses quickly become motionless as output is capped with a lack of resources. Without capital to grow, expansion quickly becomes impossible, growth—job growth suffers, and communities suffer.

I am also not naïve in understanding that money doesn't grow on trees. We shouldn't expect to get funding solely based on dreams—solely based on a dream on paper, but as entrepreneurs, knowing that there are real lending options out there if we put together a sustainable business is critical to our success and psyche, not as a safety net if something goes wrong, but as fuel to help us go faster. Programs like 7(a), CDC/504, and Microloans provide lending options for small businesses where there aren't any. Small business owners are asked to sacrifice almost everything they have today and their financial future to match their ambitions. I hope the Committee recognizes that these—I hope the Committee recognizes just how vital these capital lending programs are to helping these ambitious entrepreneurs, even if it is with just a half step forward.

Mr. FITZPATRICK. Okay. Well thank you. I yield myself back some time to ask a few questions.

I want to start by thanking each one of you again for coming. Each one of you are incredible, impressive individuals in your own right, and I can see why Mr. Evans invited you to testify today. And now that your testimony is a part of the record, it is now part of the congressional record, which means you are now permanently part of American history.

So I want to start with a very important question. Dwight and I sit on the Small Business Committee together, obviously. We are geographic neighbors. We are also friends. We come from different political parties, but we share a common view in the purpose of this hearing today, which is how to incentivize and help grow underserved populations in the business community, to include minority-owned businesses, women-owned businesses, veteran-owned

businesses, and underserved geographic segments of the population.

A lot of times the targets make their way towards places like New York or Silicon Valley and they miss places like inner city Philadelphia, and there is plenty of talent here that we are well aware that is deserving of the support of the federal government and of the SBA program. So what can Dwight and I bring back to our Committee, tangible action things that we can do on our Committee that we can translate into legislation that he and I can advance through our Committee and through the House of Representatives that will make it easier for you to do what you do, and make it easier for the intended target that we have here to be able to grow and to expand?

And we can start with Ms. Williams.

Ms. WILLIAMS. That is a great question. So I think that a lot of times, cities like Philadelphia are not necessarily viewed as having viable opportunities for small—I think we are sort of glossed over because there may be reputational issues there, or there is just a perception that, you know, we don't have the requisite skills or infrastructure that is needed in order to be able to support small business growth. So I think to the extent that, you know, you can continue sort of taking stories back from, you know, the lenders and the community organizations, the business development organizations that are on the ground and sort of lifting up things that are working and showing that there is actually a lot of promise and opportunity within this market. That, I think, would sort of help people understand that, you know, there are resources here and there is a lot of opportunity.

Ms. BENOLIEL. So yeah, the list is long. I think we do continue to support—and it is important—support and fund some of the programs that are effective, and the SBA Microloan Program, the Community Advantage Program that is the equivalent of 7(a) but for nonprofits, are critical programs, as is the CDFI fund, which offers more flexible capital to build the capacity of lending—nonprofit lending organizations primarily to do the work.

I will also say that it is very important that the support for organizations—and there is a lot of talk about is there a lot of overlap with SB—with the Small Business Development Centers and the Women's Business Development Centers and Community Development corporations. The need is so great out there, I would argue that there is not much overlap. We tend to serve specific geographies or specialize in specific populations, so I think it behooves us to support all of those—or we as a country, as taxpayers, to support all those efforts. I think the guidance is—and the technical assistance guidance that goes with the capital is so critically important. Because a loan is just a transaction, and we provide a lot more than transactions. We are with the—when I say we, it is our organization and CDFIs like us that are with the business throughout their lifetime and help them through the—navigate the ups and downs. And the longer they stay alive, the longer they survive, the greater the likelihood that they will survive and grow.

So anything that helps, you know, secure that ground.

Ms. WILLIAMS. Can I just add to Leslie's point? I just want to pick up on something she said, and I think that credit enhance-

ments are really important for lenders so, you know, it is not necessarily always just about making sure that the CDFIs or the other lenders have the capital that they need, but they also might need risk mitigation for their own lending as well. And so a lot of these programs that are, you know, guarantees or really helping bring down the risk to the lender, that then allows them to be able to not only provide capital, but also to be able to afford to pay for some of these technical assistance and development services, which are quite time consuming and expensive to provide. And honestly, that is why you see a lot of traditional banks don't necessarily provide them, because it is expensive and difficult to provide the level of technical assistance that a lot of businesses need in order to be successful. So to the extent that the federal government can provide, you know, credit enhancements, credit support, and support those types of programs, that is going to stimulate the work that CDFIs and other mission-based lenders are able to do on the ground.

Mr. THOMAS. Let me just respond and give three quick examples. For us today, we just won our companies out at inner city 100 fastest growing companies in the United States. We just came in two on the list of 100 fastest growing companies in inner city United States. We just came in with sales last year north of \$20 million. We were turned down for an SBA guaranteed loan I guess about a year and a half ago or so because of my credit report. Fortunately, PMBDA, the Pennsylvania Minority Business Development Authority, had lent us \$100,000, okay, so their criteria, they were able to support us at a key point in our business' development. Later, fortunately, the West Philadelphia Financial Services Enterprise was able to lend us \$100,000. PMBDA was paid off in full. We are paying as agreed to West Philadelphia Financial, and probably not long ago, TEC, the TEC here lent us \$200,000.

So the irony of this is that—and these things, these loans were critical in our company's development that allowed us to acquire EMSCO Scientific Enterprises for \$2-1/2 million, and the borrowed funds from private investors and others to get us to the point where we grew as an enterprise earlier on and throughout. But the irony of it all is that the underwriting criteria that SBA placed on the bank that was going to lend to us, they wouldn't do it because of some of the lending criteria. Even though we had contracts in hands worth millions of dollars, we had a track record that showed growth, we were demonstrating profitability in our enterprise, some of the criteria was, okay, your credit report as an entrepreneur, which is obviously—as the gentleman here, I took all my money out of retirement in the earlier years, placed everything and every dollar I had in our company and ran my credit cards up to the hilt, but every single dollar was pretty much tied right to the development of our enterprise.

So one of the things that I see is that other enterprises have the capability to look at—a board has the capability to look at a company, look at the holistic aspect of a company and say according to contracts or other things, we can collateralize this loan differently or we can do something innovative. It seems as though even though SBA guarantees banks, for some of these programs that the underwriting criteria it is still difficult for the bank to ac-

tually do the loan. So I would suggest, Representative Fitzpatrick, to answer your question, and for Representative Evans, that you look at very, very—have someone on your Committee very, very carefully look at the underwriting criteria and figure out is there any kind of innovative relaxation or alteration of the underwriting criteria that can be looked at?

And again, secondly, I just—to answer your question, I think there are some good programs that these young ladies are working with and others are working with that simply need to be communicated. And I think there is a number of individuals out there that might—could benefit from what does exist, they just don't know. And it is probably very important to advertise, whether it is for veterans in your district, minorities, women, to advertise, okay, on the media that individuals are tuned into, these programs.

Mr. DORCELIEN. So for me, I think there—I would like to see more resources put into educating to what I would call two pulls of hooks. Sort of the small business owners first, and not only with educating them on lending options that are available, but also just the basics on how to run a business, how to read a financial report. I think a lot of the fellow entrepreneurs right here have many basic questions that they don't know where to turn to for these sort of resources.

And also, I think that there should be a little more emphasis and efforts put into educating the students within this town on the businesses that are out here. I don't necessarily think that Comcast should be the only company that folks think about when they see Philly. There are plenty of viable, really, you know, successful companies, and we have students from Penn, Drexel, Temple who are leaving town, who we need to make a better effort on keeping here.

Mr. FITZPATRICK. I yield to my colleague, Mr. Evans.

Mr. EVANS. I would like to sort of follow up and start with you, Steven, to what the Chairman said. Because you just made a point, and I want to probe a little bit on your thinking. What key piece of advice would you share with inspiring small business owners who seek to convert their hobby into successful businesses, and is there anything that you would have done differently, you know, now that you have a chance to sit back and you have heard all this conversation. If you were to put yourself today where you were when you started, I am just very curious what was the hurdle that made you decide that you want—because you were in a law firm, right?

Mr. DORCELIEN. Sure, right.

Mr. EVANS. And that is a very successful thing, retirement and all that stuff that goes with it. But you said I am going to take that plunge.

Mr. DORCELIEN. Yeah. I have been lucky enough to have known a lot of small business owners who gave me a lot of advice. What I would have changed most is probably save a little bit more, and I say that because I have talked to many folks who dive into sort of any endeavor without much sort of knowledge or financial backing. And what I see is that they turn to not only these online lending options, but folks—I am going to say in their neighborhood or just folks that they know and they borrow money from, these sort of frivolous characters who charge them, you know, these high

interest rates and put them in more debt. So they are starting a business with substantial amount of debt, and I just—you know, that is just a recipe for disaster.

So myself personally, I would have changed probably saving years prior, but if I were to talk to someone, I would say education most of all, and not only that, not only education on your product, but how to run a business. A lot of folks don't even know how to use Excel, don't know how to read a financial report, don't know P&Ls, and stressing the importance of that is, you know, I go above and beyond to try to stress the importance of that to anyone I try to talk to, so that is what I would recommend to folks.

Mr. EVANS. I am going to piggyback a little bit more.

Mr. DORCELIEN. Sure.

Mr. EVANS. You said you know a lot of folks and at some point, you decided to make that leap.

Mr. DORCELIEN. Yes.

Mr. EVANS. Once you made that leap, did you suddenly say how do I get back on that—you jumped in that water and then all of a sudden——

Mr. DORCELIEN. Back to sort of the 9:00 to 5:00?

Mr. EVANS. Yeah, how to get back to——

Mr. DORCELIEN. For me, never.

Mr. EVANS. Okay.

Mr. DORCELIEN. For me—I can't speak for every small business owner, but once you step out into that world, then you are fighting for your own dollar, and you know, you are feeding yourself without having to, you know, go and clock in, punch in, punch out. There is no sort of better feeling. And I don't want to be, let's say, romantic about small businesses, the idea of it, because you know, there are many sleepless nights. It is super stressful, super hard, but for me personally, just sort of the mentality that I have, you know, just fighting for what I love to do has been rewarding.

Mr. EVANS. Leslie, the reason we are conducting this field hearing is to get a better sense of the needs of the small business community in the Philadelphia area. What are the top concerns that you hear from local small businesses regarding the access to capital? And we just heard Steven and you hear from your perspective. I mean, what is one or two things that you hear from——

Ms. BENOLIEL. From—yeah, from the business owners that we work with, they almost are self-defeating because they sort of expect, well, a bank is not going to approve me so they don't even try. So there is that trust issue that I talked about a little bit in my testimony. They don't know what they don't know, and I think a lot of it has to do with they don't have the confidence to get out there and who to turn to to learn more. The trust thing is a big issue. They don't want to necessarily go to a bank and they don't necessarily want to share their business idea.

So how do you resolve that? We need to develop those relationships and build that trust, and then help them do the homework that they need to do before they plunge in.

I want to piggyback on the comment that you made, and this is what we see a lot of with a lot of the aspiring business owners that come to us for assistance and capital is they are about to sign that lease. They are about to purchase out a piece of equipment without

really understanding what market they are going to serve, and if we get them early enough, we help them do more of that homework before they commit to some fixed costs that will quickly eat up what existing resources they have put in from their personal side, and to the extent that they have to borrow money. I think a lot of it is about that at that early education and building that trust and building that relationship, and helping them create more of a runway before they try and take off and then just—

Mr. EVANS. The Chairman said—I want to piggyback on what he said. He asked in a very specific way—and I don't want to put words in your mouth. I assume you say that you think the existing programs as described, Microloan and others, are sufficient to meet the needs, because what I heard the Chairman say, what specifically we could do together. Do I hear you say supporting those existing programs, or is there something to be tweaked to what Steven said? I am piggybacking on what he said, the Chairman.

Ms. BENOLIEL. I will—yes, they do need to be tweaked. I mean, fundamentally they are good. The intention is good, but the devil is in the details.

The Small Business Microloan Program has a component to it that supports the delivery of technical assistance. The way that is structured is most of that assistance is post-loan assistance. In other words, I think it—I don't know what the percentages are, that most of the monies that support that are after you make the loan, whereas in reality, a lot of the assistance is prior to getting that borrower, that applicant ready to take on the loan. But the support isn't there. That type of thing needs to be relaxed, more flexible, so that we know what the borrower needs, when they need it. We should not be held beholden whether it is before or after. That is certainly one area that needs to be looked at, and I know there has been a lot of work done with the SBA to try and change that particular stipulation.

Mr. EVANS. I yield back to the Chairman.

Mr. FITZPATRICK. Just a question for the panel, and I believe you had testified to this earlier, I think so, that the current status of minority-owned businesses in Pennsylvania, I believe by some measures it has increased pretty significantly as of late. Is that your understanding? Is that the case, and if so, what do you attribute that to? What is working currently in the program, because in addition to talking about what we should improve, we also need to know what is working to know that we need to bolster those areas as well.

Ms. BENOLIEL. I think some of the factors that are helping attributing to that increase is that after the recession, there were not a lot of jobs and a lot of individuals turned to self employment as a way to create their own job. And some of that has continued on. I will note, though, that the minority-owned businesses, while they are increasing at a faster rate, they tend to stay much smaller, and that is problematic. I think to the extent that we can support their growth through capital and the support programs where they can grow and start to hire employees, we will start to see a real shift in these communities where employment—unemployment rates have been persistently high.

So while there is an increase in the number of establishments, they are very small and they tend to be non-employer owned. In other words, they have zero employees. So I think it is really—

Mr. FITZPATRICK. So that is an accepted stat, then, that they are increasing in number but not necessarily in success?

Ms. BENOLIEL. Right, and size, and success.

Mr. FITZPATRICK. And you think that is because they have not been targeted for assistance like some other small business operations?

Ms. BENOLIEL. I think also the type of assistance that is provided, they don't have the resources, they don't have the education necessarily. So some of the programs are—the guarantee programs are—they do have some requirements that you meet a certain credit score threshold, you have a certain amount of collateral on hand. So that works for a certain size of business with a certain asset base, but it is not going to work with these tiny businesses. They just won't qualify. So we need to build that pipeline, and what do we need to do to connect when they are early established and get them to that point, and that is where there are some real gaps.

Mr. FITZPATRICK. Mr.—is it Dorcelien?

Mr. DORCELIEN. Dorcelien, yes.

Mr. FITZPATRICK. You had mentioned education. Would that be a suggestion of actually entering into the realm of educational policy, which is something we also take up in Congress? Not necessarily specifically to the Small Business Committee, but when we are developing curriculum and we are funding the Department of Education and we sort of provide guidance to what we should be teaching our kids, both in grade school and high school. Do you think that it is worth our while to address business-related curriculum to teach the young folks, not just necessarily here, but across the country, about entrepreneurship, about risk taking, about various things? Or are you just referring to education as far as like the incubators and accelerators which we see popping up a lot, which are also part of the SBA program, which allow for experienced business leaders to mentor new and upcoming entrepreneurs?

Mr. DORCELIEN. Without a doubt, both. There is no harm in, you know, school-aged kid learning basic accounting, so the earlier we can start, the better. I live in a reality where a lot of the folks that I deal with day to day don't have the basic sort of knowledge on, again, accounting and financial planning and that sort of nature, so what I mentioned earlier was just solely focused on those folks. Obviously I would like to see it start earlier and earlier, but unfortunately, some of the kids that I have sort of interacted with aren't necessarily thinking that long-term or thinking that accounting is all that important when they are in grade school.

So I would love to see it and I would love to see them focus on it. In a perfect world, you know, they will take it seriously but I am not sure if that happens all that often, and a lot of times folks get into these small businesses out of desperation, whether it is losing a job or bad economy and whatnot, and they are getting in there with sort of—without the tools that they really, really need. So I don't know if, you know, we can attach that sort of educational

requirement to a lending option or something like that, but I think that that is vital to their success.

Mr. FITZPATRICK. Does anyone else on the panel have any thoughts on the educational component?

Ms. BENOLIEL. Well I think it is critically important. Financial literacy is the fundamental—the most fundamental of that, to integrate that into our educational curriculum. And role playing, learning by doing, there are lot of—there are a number of tools out there that have been used in developing countries where you are not reading something, but you are actually acting out a village where you can buy and sell and employ, and it is those sort of things—the tools exist and it would be wonderful to integrate some of that into our curricula.

Mr. THOMAS. Yeah, and if I can add that technical assistance surrounding credit, maintenance of credit, the importance of how business individuals ought to—can develop their credit and also avoid—some individuals aren't aware of what they can do to repair their credit. That is really critical. As well as someone to provide some technical assistance on understanding what financial statements are and the impact of financial statements are also very, very, very relevant, critical issues, as well as tax implications of business decisions.

So those probably—those are three that are critical, understanding how to repair if there is damaged credit, or maintain—the importance of maintaining quality credit, the importance of understanding what a balance sheet and income statement is from at least a simple perspective, and what they mean to a business, as well as understanding the tax implications of financial decisions and importance of maintaining and having a tax professional and having some understanding of those implications as well in a business are important up front as well. Yes.

Mr. DORCELIEN. And if I may add one thing. I am not sure if this reaches sort of the arm of this Committee, but I think there has to be more efforts in not necessarily stopping, but educating small businesses on how to avoid sort of lending from—or receiving money from predatory lenders. I mean, a lot of times folks will see these, you know, get money fast commercials or billboards and whatnot, and automatically think that, you know, it is a simple five percent or it is the same as a bank lend—bank loan, when it is obviously not.

So I think that—I don't know if it starts with the education on the side of the small business or, you know, going after some of these folks who just take advantage of the poor and uneducated.

Ms. WILLIAMS. I just want to say that I completely agree. I think that one of the main places where the federal government can be incredibly useful is by enforcing and creating strong borrower protections for small business borrowers, and I mentioned that in my testimony earlier. But you know, they really don't have the same protections that are in place now for some of the—when you are trying to get a mortgage or even now when you are trying to get a pay day loan, and so when you couple the sort of availability of predatory financial products with business owners who don't necessarily have good financial management skills, it is kind of a recipe for disaster and so making sure that there are strong

borrower protections in place in the small business lending space is key to protecting some of these borrowers, especially those who have limited resources, might be the only savings or investment that you have, you know, it is important to have some guardrails in place for lenders.

Mr. FITZPATRICK. I was just advised by our member of the Committee staff that next Thursday we are having a Committee hearing on online banking, is that right, which might be relevant to that.

On the educational piece, I just want to ask this as well. Business education when we grew up is obviously much different than it probably should be now, learning basic bookkeeping. How important—because you people operate in this space every day. How important is technical knowledge, IT-based, computer-based knowledge inextricably tied to small business start-ups in minority business enterprises? Is that educational component necessary, or I guess another way of saying it is are most of these small business start-ups, do they require that sort of IT-based knowledge, given sort of the generation we are living in where so many new products and ideas are based on something with a genesis in IT, whether it be the product itself or the ability to drive the product.

Ms. BENOLIEL. I will jump in. Absolutely, but if you look back well before you were born, maybe not before you were born—I mean, cash registers changed tremendously. We had wired phones and—so technology has always been a piece of that. I think it is a tool, and the tools are changing, and the tools are changing so in many ways it is cheaper to run a business, but it is—it can also make it more expensive.

We integrated a lot of technology learning into our educational programs, because a lot of entrepreneurs don't know about these tools that can make—allow them to transact business in a much more cost efficient way. It also allows them to reach their markets in a much broader way. But what we are trying to teach them is how do you target your message—so some of this is through technology tools, but it is—the marketing is also what has changed tremendously because of technology. How do you refine your message so that you are reaching the particular audience you know who is going to have an interest in your product or service, and that is not necessarily intuitive for a lot of business owners that are just struggling to—I need to buy that piece of equipment to make the ice cream, to sell the ice cream, but they haven't spent a lot of time on how am I going to get people to come to me to buy my ice cream? But technology is absolutely critically important, but it has been there all along because at one point we didn't use telephones to conduct business and then the telephone came around.

Mr. DORCELIEN. Yeah, to quickly piggyback, it is critically important.

What I have seen is that technology obviously has made my life a lot easier, whether it is Intuit or whether it is the accounting software or whether it is social media platforms to market, I mean, there is no better time than now to sort of open a business with all the tools and resources that are available. However, there are many folks who sort of don't know how to use these tools. A lot of the older entrepreneurs I know don't necessarily know how to use

the social media but know to balance a checkbook, while a lot of the younger folks I know, know how to use the social media platforms but don't know how to balance a book. So there's that dynamic. So I think as much as we can do to sort of educate these folks on the tools that are available, because I know folks who are still literally balancing their checkbooks—I mean, not checkbooks, but whatever they are—balance sheets by paper, and it is easy for me to say it, but doing it online is so much easier, so much cleaner. But they just—they don't feel comfortable. So I think educating on not only the young, but the old as well.

Mr. THOMAS. And my experience has been, you know, fortunately our organization is technologically very, very strong in terms of our ability on a larger level to communicate, but what I have seen is that the technology is changing so totally rapidly. I guess that is a very good point that you are raising that it is helpful for someone to have technological training or someone in there that is going to stay on top of the times. For instance, Square is a way. I just went to a nonprofit fundraiser, you know, and I mentioned to a gentleman that it was a lot easier if he would figure out in 30 minutes how to get someone to help him realize that he can just take his phone, order Square, and at the door have people use credit cards, okay? So if there is a fundraiser and you are showing up, I want to use my credit card. I don't have to go through the problem of getting my accountant in our office or CFO or someone to cut a check and go through all this trouble. I can just show up, here is my credit card, and pay. That is easy.

So there are a lot of things that are going on today in terms of purchasing by way of phones, and these applications that are just changing so rapidly and you can have money in your bank account like that that entrepreneurs need to be aware of, and it is going to continue to change. So whoever is involved in this process has got to be somebody who is pretty dynamic that can stay on top of it. But that is another area of technical assistance that is going to be required in the evolving business world.

Mr. DORCELIEN. One more thing, sorry. But I also don't think that technology has to be the sort of end all, be all for running a business. I think as a small business owner, we wear many hats. We do it all. We are IT, we are accounting, we are PR, we are everything. But I think connecting sort of the smaller businesses with, for instance, with high school kids and whatnot, so if I need a marketing person, maybe I can get a high school kid to do some marketing stuff for some intern credit or something like that. I think connecting those dots are vital, because folks aren't often thinking about that. So that is just something that benefits both parties.

Mr. FITZPATRICK. Mr. Evans?

Mr. EVANS. One last thing. One thing I haven't heard—I only heard you mention it is the "t" word, taxes. And obviously we are talking about small business access supporting community and economic development. And you know there is a large debate about tax reform. Tax reform, tax cuts depends on where you sit and where you talk about it, but you know, I haven't heard in terms of that—in terms of the equation. Talk to me a little bit about the whole tax issue, because obviously you are talking about the fed-

eral government. That is a debate that is going on right now. Any comments on that?

Ms. BENOLIEL. Okay, I will comment, and I will comment from the perspective of the constituents that we typically serve.

Mr. EVANS. Go ahead.

Ms. BENOLIEL. They may say taxes are owners' problems, but most of our clients are in that early emerging stage, and they are not generating any profits to be taxed. So that—it is not the most critical—

Mr. EVANS. Not an issue.

Ms. BENOLIEL. —issue, even though it is part of the list. It tends to—when you look at surveys that the Fed has done, they do a small business survey. Taxes usually fall among fourth or fifth out of a list of 10, so it is usually—not that it isn't an issue, but it is not one of the critical issues.

Mr. THOMAS. And let me comment, and what is not mentioned—I started my career with Pricewaterhouse as an auditor, and I guess for 10 years one of our expertises in my accounting firm was taxation for small businesses. And what Leslie states is very important also, and that is a number—when you all talk on Capitol Hill about small businesses and taxation of enterprises, oftentimes there are larger, more established “small businesses” such as ours, because a small business is almost anything that is not a major business.

So that is an issue when you start to make money and you have profit. That is a major issue. On the flip side, people talk about writing off for taxes. Taxes don't mean a darn thing if you have losses, okay, in a sense, or you are not making a profit because then you are not necessarily sharing. So it is really a mixed bag.

Now I think on the federal level—on the city level it is very relevant, very, very relevant on a city level because the city has its tax on gross receipts whether you make a profit or not, and they are trying to work with that. That is a real impediment to smaller business enterprises. Some of the larger businesses are going to probably, quite frankly—I think the tax code—let me speak very honestly—is dedicated. The changes that we are talking about are going to be directed to support individuals that are making relevantly significant amounts of money, either personally where they have 250, 300, 400, 500,000 up in revenue that is coming to them that they have the—they are going to get a tax break on versus those that are in the middle who probably—the 100,000, 70,000, 40, 50, \$60,000 a year individuals are going to wind up suffering. So—and quite frankly for businesses, businesses had a capability to write more things off from a tax perspective, quite frankly.

So I would just say that when it comes to successful larger small businesses and to really the mega businesses, they pretty much can afford to pay the tax burden that exists, okay? If there is going to be any kind of tax considerations, it really needs to be some consideration for those that are, let's say, the really micro—the much smaller businesses. And if we take away some of the things like state tax deductions and city tax deductions and things of that nature, I think it is going to hurt those enterprises or those small business people who are generating less than \$100,000 a year, where most are.

Mr. DORCELIEN. And just lastly, I fully agree with the larger companies being able to afford and pay the tax burdens, while for me—to sort of go back to that education aspect of it, that smaller businesses don't necessarily know about the benefits that they have in deductibles, options that they have. A lot of folks don't know that, you know. Between their start-up costs, to even less known things like mileage and whatnot, they aren't aware that these can be deducted, and a lot of folks are just going to, you know, their neighborhood—I don't want to call out any companies by name, but like, you know, the quick tax turnarounds for, you know, a certain amount of money. They can't afford, necessarily, a CPA to help them out. So a lot of folks are taking these tax, you know, returns on their own and not going to a professional because they simply can't afford a professional. So I think more education behind how the taxes can, I guess, help them would be crucial.

Ms. WILLIAMS. I just want to add sort of a different perspective on the tax issue which is related to the New Markets Tax Credit Program, which attracts private sector investors to invest in low income and underserved businesses, and you know, there is a little bit of concern right now that a reduction in the corporate tax rate would have a negative impact on the demand for those types of New Markets Tax Credit, which could definitely have an impact on the sort of availability of capital from those type of investors if, you know, there is not necessarily a need for them to go seek out tax credits like New Markets, which are a little bit complicated, a little bit sort of more difficult to implement. If they are already seeing a reduction in corporate tax rate, it just might mean that there is not necessarily as much of a market for these types of credits that are really being used, you know, for underserved businesses.

Mr. FITZPATRICK. Anything else, Mr. Evans?

Mr. EVANS. That is good, Mr. Chairman.

Mr. FITZPATRICK. Okay. Well I just want to offer my sincere thanks to each one of you for giving up your time today. You know, everything you say is part of the record. We actually can get this printed out and myself and my colleague, Mr. Evans, are going to review everything that each one of you have said. We are going to try to digest it and figure out what we can take as far as action items back to our Nation's capital, and what we can do to address those things. We will discuss it with our fellow Committee members and the end goal of these hearings is not only to—for us to hear real world examples of people that are living and breathing these things every day, as you are. That is how you benefit myself and Mr. Evans, but to actually turn it into action.

So I personally have taken notes here, and I know we are going to pull the transcript and review that. And beyond today's testimony, if you ever have anything to offer to our Committee, you are the best resource we can have on that Committee, and therefore, you are the best resource for the Small Business Administration and the best resource for Congress and for the country, because you are the people that are seeing the struggles, you are seeing the regulatory burdens or the tax inequalities or unfairness in the system, and that is how we can learn about what we need to fix. So I just want to thank each one of you for coming out. I want to thank Mr. Evans for inviting me into his beautiful district, and I

ask unanimous consent that members have 5 legislative days to submit statements and supporting materials for the record. Without objection, so ordered.

We are adjourned. Thank you.

[Whereupon, at 4:12 p.m., the Committee was adjourned.]

APPENDIX



Testimony Submitted by
Dafina Williams, Vice President, Public Policy
On behalf of
Opportunity Finance Network
before the
House Small Business Committee
October 20, 2017
Philadelphia, PA

Good afternoon, Representative Evans and Representative Fitzpatrick. Thank you for holding this hearing on "Small Business Capital Access: Supporting Community and Economic Development." My name is Dafina Williams, and I am Vice President of Public Policy at the Opportunity Finance Network. I am pleased to be here today to not only testify on behalf of the Opportunity Finance Network (OFN), but also as a constituent of the 2nd Congressional District of Pennsylvania.

OFN is a national network of community development financial institutions (CDFIs): mission-driven community development banks, credit unions, loan funds and venture capital funds investing in opportunities that benefit low-income, low-wealth, and other under-resourced communities across America. CDFIs connect communities to capital that creates jobs, supports small businesses, builds affordable housing, cultivates healthy food and energy efficiency, and promotes safe borrowing and lending.

Currently there are more than 1,100 CDFIs certified by the Department of Treasury's Community Development Financial Institutions (CDFI) Fund. CDFIs in OFN's network alone have originated more than \$54.9 billion in financing in urban, rural, and Native communities through 2016. With cumulative net charge-off rates of less than 1 percent, CDFIs are able to lend prudently and productively in unconventional markets often overlooked by conventional financial institutions.

Today I would like to provide an overview of some of the challenges facing small businesses in accessing credit, how CDFIs are helping to address those challenges, and the role the federal government can play in providing resources to further stimulate the flow of capital to businesses that need it most.

Although lending conditions have been relatively stable for the past several years, credit standards for loans have remained tight since the Great Recession. Less credit-worthy borrowers – like those in communities disproportionately affected by the financial crisis – face significant challenges to accessing capital to start or grow their businesses. For women-owned and minority-owned small businesses, these challenges are even more pronounced.



However, there are proven solutions to meeting these challenges: specialized, targeted lending, technical assistance, and community partnerships can help to improve capital access, create new markets for small businesses, expand networks, strengthen the borrower-to-traditional lender relationships, and support broader economic development efforts to revitalize distressed rural and urban communities.

Underserved Businesses Lack Access to Credit

Small businesses are important driver of economic growth but face macroeconomic and microeconomic challenges when attempting to access credit. Some of these challenges include: contractions in the banking system and lending to small business; a decline in the availability of small dollar loans; weak or limited credit history; lack of business and financial management skills, access to entrepreneurial training and networks, and limited awareness of lending options. These barriers are particularly high for entrepreneurs who are low- to moderate-income; women; racial or ethnic minorities; and otherwise traditionally disadvantaged populations:

- **Bank Consolidation** - U.S. banks closed 4,821 branches between 2009 and 2014, reducing the total number of branches by about 5 percent.¹ A Harvard Business School report found that:

"A decades-long trend toward consolidation of banking assets in fewer institutions is eliminating a key source of capital for small firms. Community banks are being consolidated by bigger banks, with the number of community banks falling to just over 5,000 today, down from over 14,000 in the mid-1980s, while average bank assets continue to rise."²

This decrease in bank branches has created banking deserts, especially in low-income communities, rural communities, and communities of color. The Federal Reserve Bank of New York found that people in low-income census tracts are more than twice as likely to live in a banking desert than their counterparts in higher income tracts.³ As branches close, access to banking services as well as credit and loans is diminished for the areas served by the branches.

¹ Morgan, Donald, Maxim Pinkovskiy, and Bryan Yang, "Banking Deserts, Branch Closings, and Soft Information", Liberty Street Economics, Federal Reserve Bank of New York, March 2016.

² Mills, Karen Gordon and Brayden McCarthy, "The State of Small Business Lending: Innovation and Technology and the Implications for Regulation Working Paper 17-042, Harvard Business School, http://www.hbs.edu/faculty/Publication%20Files/17-042_30393d52-3c61-41cb-a78a-ebb3e040e55.pdf.

³ *Id.* at 1.



- **Contractions in lending to small businesses** - A decline in the number of bank branches and community banks impacts the availability of credit to small businesses, who typically rely on relationship lending from their local lenders. After increasing rapidly from 2001-2007, small business lending declined precipitously between 2007 and 2010, then rebounded slowly starting in 2015 according to data reported under the Community Reinvestment Act (CRA).⁴ Large bank lending, has in fact been increasing, with loan approval rates at big banks (those with \$10 billion or more in assets) improving for the seventh time in the last eight months in September 2016.⁵

In spite of the increase, large banks approved only 23.4 percent of loan requests by small business owners, meaning more than three quarters of applicants were not able to receive the requested financing.⁶ For small businesses with less than \$1 million in revenue, access to capital issues are even more pronounced. A report from the Woodstock Institute, *Patterns of Disparity*, found the number of CRA-reported loans nationally to small businesses with gross revenues under \$1 million was just 15 percent higher in 2015 than in 2001, but 41 percent lower than the peak in 2007, while the total dollar amount of those loans in 2015 was down more than 41 percent from the amount in 2007 and down 21 percent since 2001.⁷

- **Decline in availability of small dollar loans** - There has also been a decline in the availability of smaller dollar loans. *Patterns of Disparity* also stated the number of CRA-reported loans under \$100,000 nationally in 2015 remained 58 percent lower than in 2007 and two percent lower than in 2001. The total dollar amount of those loans decreased nearly 47 percent from its peak in 2007 but rose by 16 percent, from \$67.0 billion to \$77.9 billion, between 2001 and 2015.⁸ At the same time, the demand for loans of less than \$100,000 remains high. The Federal Reserve's 2016 Small Business Credit Survey of employer firms found that 55 percent of applicants sought \$100,000 or less in financing. For businesses with less than \$1 million in

⁴ "Patterns of Disparity: Small Business Lending in the Detroit and Richmond Regions", The Woodstock Institute, January 2017. Accessed August 24, 2017. <http://www.woodstockinst.org/sites/default/files/attachments/Detroit%20and%20Richmond%20Report%20Website.pdf>

⁵ Biz2Credit Small Business Lending Index, September 2016, <https://www.biz2credit.com/small-business-lending-index/september-2016>

⁶ *Id.* at 4.

⁷ *Id.*

⁸ *Id.*



revenue, 70 percent of respondents sought financing of \$100,000 or less.⁹ This results in a significant access to capital gap for business owners.

- **Weak or limited credit history/collateral** - Tight credit markets can have an impact on small business owners who may have weak or limited credit history, lack of collateral, poor financial documentation, and modest business revenues. Many of these small business owners use their personal credit to finance their business. The 2016 Small Business Credit Survey found that 42 percent of small businesses rely exclusively on their owners' personal credit scores to secure debt, and another 45 percent use both the owners' personal scores and business credit scores.¹⁰ Weak credit history makes it more difficult to secure financing from mainstream sources and makes these small business owners more vulnerable to predatory online lenders.
- **Lack of Business Training and Financial Management Skills** - Lack of business training and financial management skills is one of the biggest challenges facing small businesses seeking financing. CDFIs have noted the need to provide specialized training and technical assistance to small business borrowers to identify areas of weakness in the business, develop a strategy for delivering technical assistance to that borrower, and helping build capacity to ensure the business owner is prepared for financing. This hands-on approach to business development is a key component to the success of CDFIs lending to small businesses.
- **Access to business and professional networks** - Small business owners often lack access to business and professional networks and can have a hard time accessing venture capital or other institutional capital. Further, underserved business owners often lack personal capital and do not have a strong friends and family network who may have access to capital. Access to business networks and mentors can build relationships or lead to financial opportunities. The greater Philadelphia region has a relatively robust network of organizations that support entrepreneurship, but could benefit from better coordination among those groups so business owners know where to seek resources needed to start or grow their businesses.
- **Limited awareness of lending options** - Often small business owners are not aware that they may have affordable options to finance their businesses, or that responsible lending alternatives like CDFIs are available. It is also important to address the role of online and marketplace lenders in the small

⁹ 2016 Small Business Credit Survey: Report on Employer Firms", Federal Reserve System, April 2017. Accessed August 22, 2017.
<https://www.newyorkfed.org/medialibrary/media/smallbusiness/2016/SBCS-Report-EmployerFirms-2016.pdf>

¹⁰ *Ibid.*



business lending space. The emergence of online lending has produced a seismic shift in the delivery of capital and financial services to consumers and business owners. As access to traditional brick and mortar institutions continue to retract and reduce their numbers, and credit remains difficult for small businesses to secure, new online lenders have entered the small business marketplace. To an extent, marketplace lenders are filling a gap and providing a financing option to people with limited access to business credit and financial services. However, not enough is known about their business models, underwriting methods, and portfolio quality. There are some lenders providing high-cost loans targeting the most vulnerable small businesses with little transparency about loan pricing and terms upfront. The lack of oversight in the online lending market limits the ability of business owners to make informed decisions.

- **Discrimination** - Racial and gender biases can also prevent small businesses from entering mainstream lending. Studies show that diverse small businesses are less likely to apply for a loan due to fear of rejection. A 2015 Independent Business Survey conducted by the Institute for Local Self Reliance reported that of the business owners of color who applied for a bank loan in the last two years, 54 percent were rejected. The SBA's research shows minority business owners are disproportionately denied financing even when controlling for factors such as business credit scores and personal wealth.¹¹

The Minority Business Development Agency's (MBDA) research finds that minority business owners are denied loans at nearly three times the rate of non-minority owners.¹² Even when controlling for credit and collateral differences, when diverse small business owners do access capital, they often receive lower loan amounts and pay higher rates.

Women-owned businesses also face access to capital challenges. Women account for only 16 percent of conventional small business loans and 17 percent of SBA loans even though they represent 30 percent of all small

¹¹ Kymn, Christine, "Access to Capital for Women- and Minority-owned Businesses: Revisiting Key Variables by Advocacy", Issue Brief 3: Access to Capital, Small Business Administration, Office of Advocacy January 2014. Accessed January 11, 2017.
<https://www.sba.gov/sites/default/files/Issue%20Brief%203%20Access%20to%20Capital.pdf>.

¹² Fairlie, Robert, Ph. D. and Alicia M. Robb, Ph.D., "Disparities in Capital Access between Minority and Non-Minority-Owned Businesses: The Troubling Reality of Capital Limitations Faced by MBEs", U.S. Department of Commerce, Minority Business Development Agency, January 2010. Accessed January 11, 2017.
<http://www.mbd.gov/sites/default/files/DisparitiesinCapitalAccessReport.pdf>.



companies.¹³ Of conventional small business loans, just \$1 of every \$23 in conventional small business loans goes to a woman-owned business. These access to capital gaps start from the startup of the business. On average, men start their businesses with nearly twice as much capital as women (\$135,000 vs. \$75,000).¹⁴ Similar to business owners of color, women are more likely to be turned down for loans or receive loans with less favorable terms than their male counterparts.¹⁵

Despite these challenges, underserved businesses continue to grow and create jobs. Nationally, in recent years, businesses owned by people of color have grown rapidly, with data showing the increase in Black and Latino business ownership outpaced population growth from 2007 to 2012, when the black population increased by 6 percent but black business ownership increased by 34 percent, and the Latino population increased by 17 percent while Latino-owned businesses increased by 46 percent.¹⁶ This national growth in businesses owned by people of color indicates enormous untapped potential for entrepreneurial growth in a city like Philadelphia, where 41 percent of the population is Black or African-American and 14 percent is Hispanic or Latino.

A boost in local small business ownership could also have a positive impact on the economic development of our region, and make the region more competitive with other large metropolitan areas of the country. Analysis of U.S. Census data by American City Business Journals found that the Greater Philadelphia area lagged behind the metro regions of Boston, New York, Baltimore and Washington, D.C., in small business growth rates.¹⁷ Additional investments in proven solutions and programs like those that support the work of CDFIs will stimulate the flow of capital to business owners, generating economic activity that can catalyze community

¹³ "21st Century Barriers to Women's Entrepreneurship", US Senate Small Business Committee, July 23, 2014, Accessed August 29, 2017. https://www.sbc.senate.gov/public/_cache/files/3/f/3f954386-f16b-48d2-86ad-698a75e33cc4/F74C2CA266014842F8A3D86C3AB619BA.21st-century-barriers-to-women-s-entrepreneurship-revised-ed.-v.1.pdf

¹⁴ Coleman, Susan, and Alicia Robb, Ph.D., "Access to Capital by High-Growth Women-Owned Businesses SBAHQ-13-Q-0A63," National Women's Business Council, April 3rd, 2014. Accessed August 27, 2017. <https://www.nwbc.gov/research/high-growth-women-owned-businesses-access-capital>

¹⁵ Economics and Statistics Administration, "Women-Owned Businesses in the 21st Century," U.S. Department of Commerce for White House Council on Women and Girls, Issued October 2010. Accessed August 22, 2017. http://www.dol.gov/wb/media/Women-Owned_Businesses_in_The_21st_Century.pdf.

¹⁶ McManus, Michael, "Minority Business Ownership: Data from the 2012 Survey of Business Owners", Issue Brief Number 12, September 14, 2016.

¹⁷ G. Scott Thomas and Alison Burdo, "Phila. Small Business Growth Rate Lags Behind Other Major East Coast Cities", Philadelphia Business Journal, Nov 21, 2016. <https://www.bizjournals.com/philadelphia/news/2016/11/21/small-business-growth-philly-lancaster-allentown.html>



development, create jobs, generate income and wealth, and help chip away at the city's persistently high poverty rate.

Role of CDFIs in Small Business Lending

CDFIs are an important part of the small business lending ecosystem, providing capital to businesses that cannot access traditional financing. As mission-driven lenders, increasing access to affordable, responsible capital for business owners with limited options: women, people of color, startup firms with limited revenue and less than perfect credit, is a key component of their strategy. CDFIs lend successfully in distressed markets and communities of persistent poverty by taking a localized approach to lending, adjusting their strategies and products to meet the needs of their communities, and by being accountable to the communities they serve.

For small businesses owners with financial impediments to securing financing like lack of collateral, cash flow challenges, modest business revenues, or imperfect credit, CDFIs address these issues by providing a variety of financial products, including working capital, equity investments, bridge loans, senior and subordinated debt, sometimes at below market rates with lower and fewer fees, with more flexible underwriting criteria, credit standards, collateralization and debt service requirements than what is otherwise available in the marketplace.

As mentioned previously, some of the challenges facing small businesses served by CDFIs are financial, while others are related to the business management practices. However, the experience of CDFIs has shown that both issues must be addressed for the business to be successful and grow. To that end, CDFIs address this issue by providing financial education, technical assistance, and capacity-building development services to their borrowers, including business training and access to social and professional networks.

Beyond providing capital and technical assistance, CDFIs often have relationships with community stakeholders including nonprofits, foundations, chambers of commerce, government agencies, and financial institutions, allowing them to connect entrepreneurs to a rich network of resources and opportunities. Many CDFIs also have referral relationships with local financial institutions, whereby a bank may refer a potential borrower who is not quite ready for conventional financing to a CDFI, where the business owner can receive any needed training or technical assistance as well as financing. For many CDFIs, the goal is to help the borrower strengthen and grow their business, improve their financial position, and eventually be able to "graduate" to traditional financing from a mainstream institution.

There are currently 17 certified CDFIs located in southeastern Pennsylvania, with more than half providing small business loans. CDFIs lending to small businesses in the Philadelphia region are able to address a spectrum of capital needs: from



EntrepreneurWorks and the Economic Opportunities Fund providing the smallest of microloans, sometimes as little as \$500 in initial seed capital to turn an idea into a business, to The Enterprise Center and FINANTA who provide critical growth capital in the range of \$50,000 to \$250,000, to the Philadelphia Industrial Development Corporation that provides multimillion dollar financing for larger businesses poised for growth. But often, CDFIs themselves face access to capital challenges and require support from the federal government to provide the flexible, patient capital or credit enhancement programs needed to reach underserved businesses and communities.

Federal Support of Small Business Lenders

The federal government already has several tools at its disposal that can increase the supply of capital to mission driven lenders like CDFIs, who are adept at channeling those resources into distressed communities. The following are recommendations that will preserve and expand key federal programs that help increase the availability of capital for small businesses:

- **Full funding for the Department of Treasury's CDFI Fund's Financial Assistance and Technical Assistance program** to allow certified CDFIs access to the flexible, patient capital needed to provide financing to underserved businesses, and to provide critical technical assistance and development services to help small businesses grow and thrive. The equity capital provided through the CDFI Fund's programs is crucial to attracting private sector capital, allowing CDFIs to leverage public sector dollars for greater impact. For every \$1 in CDFI Fund awards, CDFIs generate \$12 in financing to bring economic opportunity, growth, and prosperity to rural, urban, and Native communities where mainstream capital is scarce.
- **Permanent reauthorization of the New Markets Tax Credit (NMTC) Program** – The NMTC program increases the flow of capital to businesses and low-income communities by providing a modest tax incentive to private investors. Over the last ten years, the NMTC has proven to be an effective, targeted and cost-efficient financing tool valued by businesses, communities and investors across the country. The NMTC expires on December 31, 2019.
- **Make permanent the Small Business Administration's Community Advantage Pilot Program** – The Community Advantage program provides a credit enhancement for small business loans made by mission-driven lenders. The program, set to sunset December 31, 2020, should be made permanent and the maximum loan amount increased to \$500,000. The SBA's Microloan program should also be expanded and should provide additional technical assistance funds.



- **Reauthorization of the recently expired State Small Business Credit Initiative (SSBCI)**, a \$1.5 billion program created through the Small Business Jobs Act of 2010 to increase access to capital for small businesses, with a focus on reaching underserved communities. CDFIs made nearly 11,000 loans or investments supported by SSBCI funds, totaling \$835 million in new financing through 2016. In fact, CDFIs accounted for 60 percent of the total number of SSBCI-supported loans and investments in Pennsylvania. A new round of funding for the program could further increase the supply of credit for underserved businesses.
- **Strong small business borrower protections** that ensure business owners have access to better information, clear disclosure, and understanding of the loan terms and agreements so they can make informed financial decisions. There are substantial disclosure requirements in the mortgage lending and now, the consumer lending markets but no such protections or requirements currently exist for small business borrowers.

Thank you for the opportunity to testify at today's hearing. I would be happy to answer any questions.

**U.S. House of Representatives
Small Business Committee Field Hearing
Philadelphia, PA
October 20, 2017
Leslie Benoliel
President and CEO, Entrepreneur Works Fund**

Small Business Capital Access: Supporting Community and Economic Development

Introduction

- Good afternoon, Representative Evans, Representative Fitzpatrick, and members of the Small Business Committee. Thank you for the invitation to provide testimony on this very important topic.
- My name is Leslie Benoliel, and I am the President and CEO of Entrepreneur Works Fund (EWF), a non-profit organization that provides access to loan capital and business training to entrepreneurs and small-business owners in the five county Greater Philadelphia Region.
- Over the past 18 years, Entrepreneur Works Fund has assisted more than 5,000 entrepreneurs and has disbursed over 450 loans totaling \$1.7 million for business start-up and expansion.
- EWF serves 250-300 small business owners each year, and targets small business owners living or operating in low- to moderate-income neighborhoods in this region
- In Fiscal Year 2016, 84% of our clients identified as members of a racial minority (73% of whom identified as African-American); 68% resided in low- to moderate-income households; and 60% were women.
- I would like to commend the Small Business Committee for their hard work and efforts to acknowledge the disparity in access to capital in the state of Pennsylvania for deserving small-business owners, particularly those in underserved communities.
- I am here today to express my support of this committee's work to ensure better access to capital for aspiring entrepreneurs and small business owners looking to build successful businesses, build wealth, achieve economic self-sufficiency, create jobs for their neighbors, and make their communities better places to live and work.

Small businesses are vital to and key segment of our region's and the national economy

- Small businesses (firms with less than 500 employees) represent the largest proportion (99+%) of all firms and account for roughly half of all private sector jobs.
- In Pennsylvania, 1 million small businesses represent 98% of all PA firms and account for 2.4 million jobs, almost 47% of PA private sector employees
- The smallest of businesses are microenterprises (those with 5 or fewer employees). They numbered 27.6 million in the US in 2015 and account for 16.2% of all private sector jobs.
- SBA data consistently show that small businesses are the largest creators of jobs in the U.S., year after year, with rare exceptions: microbusiness employers (those with 1-19

employees were responsible for 11% of the 13.7 million private-sector net job gains from 2010-2016.

- Small businesses make up over 96% of businesses in Philadelphia and account for more than half of all jobs in the city. In 2013 there were 103,369 of small businesses with fewer than 20 employees.
- In the five county Greater Philadelphia region there were 359,182 small businesses
- However, aspiring small business owners in the Philadelphia region are at a disadvantage. The Kauffman Foundation's *2015 Index of Startup Activity* ranks Greater Philadelphia 31st among the US's 40 largest metropolitan areas across multiple measures of new business and startup activity.

Who are these small businesses?

- We find most small businesses in our local neighborhoods, on and near commercial corridors and along "main streets" of our region's smaller cities and townships: neighborhoods such as Germantown, East Oak Lane and West Philadelphia, often clustered around commercial corridors such as along 52nd Street and Lancaster and Germantown Avenues. Also in county townships such as Bristol in Bucks County.
- We, as residents, see, engage with and rely on with these small businesses every day.
- They are child care centers, coffee shops, food trucks, dry cleaners, landscapers, exercise studios, clothing boutiques, barber shops, professional and health service providers to name a few.
- Others are operating in basements, attics, shared spaces or on the internet: software developers, graphic designers, translation services, as examples.
- These businesses are the lifeblood of our neighborhood economies and are important contributors to our region's economy and to our collective community health.

Why are small businesses so important?

1. Small businesses provide the goods and services that we want, need and value
2. Small businesses create jobs, especially for those who face challenges (low income, low skills, young adults, people that need flexibility, immigrants). Research shows that small businesses mostly hire from the communities that they serve
3. Small businesses tend to keep the money they make circulating locally. In the Sustainable Business Network's *Taking Care of Business* report, it was found that money spent at a small business in Philadelphia is 71% more likely to stay in the community versus money spent at a national chain
4. Small businesses make our neighborhoods and communities more vibrant, diverse, and interesting, and that attracts visitors and new residents
5. Small businesses create wealth for their employees and themselves
6. Small businesses invest in and support their communities: offer space, contribute dollars, offer themselves and their employees as volunteers

Small businesses create important pathways of wealth-building and economic opportunity for underserved populations

- For many entrepreneurs, particularly those that are low-income, minorities, women, immigrants, veterans and returning citizens, entrepreneurship is a viable and critical path to break the cycle of poverty and for improving economic self-sufficiency.
- These populations often lack social networks/relationships, education or training, and other resources needed to obtain a skilled job with a *livable* wage.
- Small business ownership offers a viable and attractive option for them to move up the economic ladder.
- Research shows that there are substantial wealth advantages for business owners compared to non-business owners: the median net worth of business owners is more than two times greater than that of non-business owners.
- This advantage is even more pronounced for minorities and women.
- For example, a recent study (The Tapestry of Black Business Ownership in America (2016) commissioned by the Association of Enterprise Opportunity (AEO) shows that the median net worth for Black-owned business is 12 times higher than for Black non-business owners
- Furthermore, minority- owned and women-owned business creation rates are exceeding those of non-minority males which is indicative of the desire and interest
- In recent years, we've seen an inspiring increase in Hispanic, African-American, and other minority-owned businesses; with a 37% overall increase in minority-owned businesses in Pennsylvania, which was reported by the Sustainable Business Network in December 2015.

There are barriers persist that stymie small business owners' access to capital

Three major factors hinder small business owners' path to success: **(1) Low starting wealth, (2) limited access to capital and (3) a "trust gap"**

- While most individuals face challenges to get a business off the ground, the need is greatest among underserved and marginalized populations.
- Access to capital is chief among these needs.
- Other resources needed include training, guidance, mentoring and access to markets and business networks. Starting and growing a business can be costly and very complex. Business owners also need and value the guidance helping them navigate and prioritize.
- There are many who say they offer capital for small-business owners in Philadelphia, including banks. Unfortunately, much of this is unaffordable, inaccessible and, in some cases, harmful.
- Many small businesses don't meet the bank standards to qualify them for loans: credit score thresholds; insufficient collateral; limited equity to put in the business; limited experience; and lack of networks and relationships that could support their endeavors.
- Minority business owners face steeper barriers than their white counterparts: lower starting wealth, fewer assets and less disposable income.
- When they do qualify for a bank loan, the loan amounts are often less than what was requested and less than what is needed by the business

- Furthermore, banks are reluctant to make smaller business loans (less than \$50,000) because they are unprofitable.
- Many minority small business owners feel intimidated by banks according to several national surveys recently conducted. This is especially acute among Black business owners.
- Banks and other lenders can be difficult with which to establish relationships.
- With limited professional networks and limited knowledge about how to navigate our complex financial system, it is difficult and, indeed, intimidating for small business owners to establish relationships with banks.
- The business owners often become discouraged from applying and are increasingly turning to alternative types of financing –particularly on-line lenders to source capital.
- Many of these “alternative” lenders (particularly online lenders) are predatory and onerously expensive. The borrowers can easily get caught in a debt cycle leaving them in worse financial shape.

Important roles CDFIs like Entrepreneur Works Fund play in supporting small business

- Entrepreneur Works Fund, among other CDFIs, in the Greater Philadelphia Region, provide much more than just a loan transaction for entrepreneurs and small-business owners.
- We provide the trusted guidance (technical assistance) either directly or by partnering with other community-focused organizations such as the Women’s Business Development Centers (WBDC), Small Business Development Centers (SBDCs), community development corporations and business associations.
- I’d like to emphasize this point: mere access to capital isn’t always enough. Capital needs to be coupled with technical assistance (trusted guidance) and appropriate training to ensure the small-business owner is prepared to take on a loan, to use the capital to build the business and, lastly, ensure he/she is capable of paying off the loan.
- Traditional lenders, such as banks, and on-line lenders do not offer this support.
- CDFIs, WBDCs, SBDCs form the foundation of a vast network of business support and business capital.
- Organizations like ours have built strong, trusted relationships in the communities and among the populations we serve.
- We have built a deep knowledge of the need of the small business community and developed effective ways to reach and serve them.
- Our successes and that of our small business clients would not be possible without funding and capacity-building support from the Small Business Administration and the U.S Treasury’s Community Development Financial Institutions Fund (CDFI).
- Support from these sources have allowed us to reach hundreds of entrepreneurs each year – particularly those that are low- to moderate-income; women; minorities; immigrants; and returning citizens
- To amplify our reach and channel more resources to small-business owners, Entrepreneur Works and organizations like ours are continually seeking more capital to disburse, as well as the resources to be able to provide the technical assistance (guidance, mentoring and coaching) these small-business owners truly need and value.

Promising solutions to unleash the economic potential of small businesses

What can we, as lenders, business support providers, policy makers, and donors do to bridge this gap and connect those wishing to start small businesses and others looking to grow their business with appropriate resources?

- Help individuals looking to start businesses build wealth through innovative asset building tools. Greater assets to begin with provide the entrepreneur with more “runway capital”.
- Support innovative lending programs and products: forgivable loans; loan guaranty; loan and equity blends (“patient capital”)
- Look at crowdfunding delivery models that target specific populations
- Provide greater support to non-profits that support underserved small business owners and help them build their capacity to reach them, develop trust with them and deliver culturally competent products and support services in their community. Meet them where they are.
- Facilitate and support efforts that build social and business networks. Peer mentoring is one example

These are a few strategies that can help small business owners build credit worthiness, business competencies, broaden their networks and build trust and confidence.

Closing Remarks

- In closing, small businesses are the back-bone and the engines of our economy – in Philadelphia, in Pennsylvania, and the nation as a whole.
- It is imperative that we, from the public, private and non-profit sectors work in concert to support the growth and sustainability of small businesses especially in our underserved communities

I want to thank you again for this opportunity to testify and for continuing to champion small businesses.

Respectfully submitted,

Leslie Benoliel
President and CEO
Entrepreneur Works Fund



Showroom Address: 5070 Parkside Avenue, Suite 3200 Philadelphia, PA 19131
Mailing Address: P.O. Box 28032 Philadelphia, PA 19131
• Phone: 215.477.5601 • Fax: 215.477.2526 • Toll Free: 800.542.6026
www.emscoscience.com

October 17, 2017

CONGRESS OF THE UNITED STATES
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515
ATTN: U.S. Rep. Steve Chabot, Chairman
U.S. Rep. Dwight Evans, Member

RE: HEARING: "Small Business Capital Access: Supporting Community and Economic Development"

Good afternoon Committee Members:

For the record, I began my professional career 39 years ago, as an auditor with Price Waterhouse & Co.; worked as Vice President of Finance for a group of small businesses; worked for this very same U.S. House Committee on Small Business for then Chairman **Congressman, Parren J. Mitchell**; founded a Public Accounting Firm which firm served as a Financial Consultant to a Commonwealth of Pennsylvania Minority Business Economic Development Agency; worked as a minority shareholder in a national small business enterprise; and today I serve as a majority shareholder and CEO of two Emerging Minority Business Enterprises, operating on a national basis doing business with Fortune 100 enterprises.

My experience has afforded me the opportunity to work with small businesses with annual sales ranging from \$ 5,000.00 to greater than \$ 100,000,000.00 per year, in annual sales.

Perhaps more significantly are the over 50 small and minority businesses, I have interacted with over the years, that withered and died on the proverbial vine, because of a lack of access to capital.

Conversely, I experienced a period of my career, where I witnessed the positive results and meaningful favorable economic impact of businesses, that were created, fostered, revived and strived, as the direct result of receipt of capital, via economic development enterprise funds primarily received from the Commonwealth of Pennsylvania, during the early 90's and to some degree from the City of Philadelphia during the late 90's and early 2000's.

Simply stated:

- A. Small Businesses provide more jobs and contribute more to America's economic growth.
- B. There is no such thing as the growth and development of Small Businesses, absent Increased, Innovative, and relaxed mainline bank underwriting for Small Businesses.
- C. There likely does not exist any, Bank Business Loan Portfolio, Venture Capital Business Loan Portfolio, that does not have a percentage of Delinquent or Defaulted Loans, combined within the Portfolio along with neutral performing loans, and High Performing Profitable loans included within the loans, which drive the larger economy.
- D. Many large bank portfolios of loans, simply extract non-performing or poor performing loans *OUT of their active group of loans*, and place these loans in "work-out", which causes the calculated performance of Delinquent or Defaulted Loans, to have a lower rate and less active impact on the Reported Loan Portfolio Delinquency and Default Rate.
- E. Small Businesses MUST be afforded the opportunity to be created, grow and contribute to the economy, as in any loan portfolio some will fail, some will falter and recover and some will grow, thrive and make major contributions and re-investment in the economy.
- F. Absent access to capital, with slightly relaxed and more innovative underwriting criteria, these potentially phenomenally contributors to our existence and economy will likely never come into being or development.

RE: HEARING: "Small Business Capital Access: Supporting Community and
Economic Development"

Page 3

Perhaps the following quotes will prove relevant:

"What happens to a dream deferred? Does it dry up like a raisin...."

Langston Hughes.

"A Dream Deferred is a Dream Denied."


Langston Hughes

"Give me a lever long enough and a fulcrum on which to place it, and I shall move the
world."

Archimedes

Distinguished Gentlemen, let's not have a hearing for the hell of it, but let's do
something to really make capital more accessible to Small and Minority Businesses.

Thank you,



Lin Thomas,
CEO
EMSCO Scientific Enterprises, Inc.

“Small Business Capital Access: Supporting Community and Economic Development”

The Committee on Small Business

2:30 P.M. on Friday, October 20, 2017

Studio C at The Enterprise Center

4548 Market Street, Philadelphia, PA 19139

Steven Dorcelien

Owner

Bright Yellow Creamery

They say it takes a village to raise a child. I say it takes the same to raise a small business. I’ve been lucky enough to have had a village help raise the artisanal ice cream company I always dreamed of having, but it hasn’t been easy.

My journey started roughly two years prior to launching Bright Yellow Creamery in the Spring of 2017. Before stepping into the entrepreneurial world, I always envisioned opening my own café as I worked tirelessly for one of the largest law firms in the world. With a clear goal in mind, and the knowledge of how tight access to capital would be for new—and what banks would call “high-risk”—companies, I accelerated by savings by picking up a second job on weekends, renting my apartment for additional funds, and diverting my retirement contributions to low-interest bank savings. This meticulous approach not only came at the expense of leisure but also the long-term safety net of retirement planning.

But I knew the gamble before I served my first ice cream cone.

I knew that there was a facade around the level in which major banking institutions would cater to small businesses. I quickly found out that despite a near 800 credit score, two years worth of savings, a post-graduate business degree, and a clear and concise business plan, I was simply too “high-risk” for traditional institutional lending. The nostalgic image of a young person going to their neighborhood bank for a loan to open their first business was met with a harsh reality. Without years of business returns and substantial collateral, the funds I had saved would be my only option. I quickly found myself pouring out years of savings to jumpstart my dreams. Bright Yellow Creamery was truly bootstrapped with our first piece of commercial equipment and a mobile vending unit nearly depleting all I had.

With equipment and a framework for the business in place, I found myself, like many other first time entrepreneurs, at Philadelphia’s Enterprise Center. Their efforts in assisting minority enterprises with business resources and support is what drew me in. Under their guidance, my business was born out of their food business incubator, The Dorrance H. Hamilton Center for Culinary Enterprises. Seven months later, the savings initially poured into the business has returned in earnings and the equipment purchased carries a zero balance. The journey has been viable and certainly worthwhile thus far, both financially and emotionally. Yet, I continue to find myself in the same shoes as many others in our inability to tap into bank lending for continued acceleration. The ability to purchase larger equipment, hire staff, and secure a brick-

and-mortar location are natural progressions of any business with aspirations of growth but, with limited options to capital, painstakingly slow growth appear to be the only way for some to continue their dreams. These businesses can quickly become stagnant as output is capped with a lack of resources. Without capital to grow, expansion becomes near impossible, job growth suffers, and communities suffer.

I've been fortunate in my ability to save in the way I did. With the support of friends. I used my residence as a means of generating revenue while I stayed elsewhere. I worked for family members in part-time, flexible roles. And am, somewhat, young enough to sacrifice a few years of retirement savings for short-term gain. Many others don't have these luxuries. The peers I know from the Enterprise Center are chasing their dreams with families to provide for and loved ones to care for. The funds that may go into some form of savings are used for basic necessities in life. They, like me, aspire to use their business as a vehicle to revitalize a community and create jobs. Programs like 7(a), CDC/504, and Microloan provide lending options for small businesses where they aren't any. Often, small business owners are asked to sacrifice almost everything they have today and in the future to match their ambitions. I hope the Committee recognizes just how vital these capital access programs are to helping those ambitious entrepreneurs, even if it's with just a half step forward.

