

# Direct Lending in the FY 2022 Budget Reconciliation Bill



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Director of the Economic Program

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The Honorable Ben Cardin  
Senate Committee on Small Business and Entrepreneurship  
428A Russell Senate Office Building  
Washington, DC 20510

The Honorable Nydia Velázquez  
House Committee on Small Business  
2361 Rayburn House office Building  
Washington, DC 20515

Dear Chairman Cardin and Chairwoman Velázquez,

The American Rescue Plan provided critical financial support to help our small businesses recover from the COVID-induced economic crisis. But as we rebuild, more federal support will be needed so that America's small businesses can grow and thrive. As we look to the FY 2022 budget reconciliation process, the \$17.5 billion instruction to the House committee and \$25 billion instruction to the Senate committee could, if used innovatively, have a significant impact on millions of American businesses and the good-paying jobs they provide.

To utilize the limited reconciliation instruction in high-value ways, we encourage your committees to consider leveraging the U.S. Small Business Administration's existing 7(a) loan program as a vehicle for new direct lending to entrepreneurs looking for smaller-dollar loans. While we have seen many positive economic indicators relating to the return of small businesses more broadly, this recovery has not been equitable, with many minority-owned businesses struggling to thrive. We see this inequitable recovery demonstrated in a number of ways.

Entrepreneurs of color and their small businesses are more credit-constrained than their white counterparts. According to the Federal Reserve [2021 report](#) on firms that are owned by people of color, over half of white-owned employer-firms that applied for non-emergency financing in the last 12 months received most or all of the capital they needed. But only 20% of Black-owned firms and 30% of Hispanic-owned firms could say the same. Perhaps even more disturbing, over the past 12 months, almost two-thirds of all Black-owned employer-firms applied for financing and received nothing or had financing needs but did not apply. Something isn't working.

Interestingly, these entrepreneurs of color are often seeking smaller amounts of capital. According to the same Federal Reserve report, two-thirds of Black- or Hispanic-owned employer-firms were seeking capital of under \$100,000, compared to about half of white-owned firms and four-in-ten Asian-owned firms. And Black-owned businesses seeking capital are looking everywhere. A full third of Black-owned employer-firms are applying to four or more sources of credit to meet their needs. Clearly, minority-owned businesses' capital needs are not being met, which bodes poorly for economic equity moving forward.

The friction between being more credit-constrained while still seeking lower amounts of financing lends itself to more direct government intervention on this lower-dollar end of the capital marketplace. It would be even better if policymakers could further leverage purpose-based lenders like community development financial institutions (CDFIs), minority depository institutions (MDIs), and community banks as part of this policy. And if traditional financial institutions have a well-established history of lending smaller-dollar loans to minority-owned businesses and entrepreneurs of color, they should be allowed to take part in this as well. Direct smaller-amount lending with service fees subsidized by the Small Business Administration could help entrepreneurs in every corner of this country. And it's worth trying in reconciliation.

The US economy will emerge from the COVID-19 pandemic—the question is how quickly we emerge and how equitable that recovery will be. And for far too many minority-owned businesses, a quick

and lasting recovery is not a guarantee. Congress has an opportunity to create a post-pandemic economy that is stronger and more equitable than any US economy in the past. We strongly believe small businesses and entrepreneurs are at the forefront of that and hope to see meaningful policies in budget reconciliation from the Small Business Committees.

Thank you for your consideration and work on these issues,

Zach Moller

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Third Way

#### TOPICS

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