

Next to owning a home, business equity is the largest source of wealth in the United States. Small businesses are the backbone of the American economy, providing almost half of all jobs in the U.S. and creating nearly two-thirds of all new jobs.¹

Yet barriers to credit access prevent Americans from starting businesses and building generational wealth, further widening the racial wealth gap. Congress and federal agencies are charged with enforcing fair lending laws and ensuring equitable access to capital, but don't have the data they need to answer basic questions about small business lending. Further, the COVID-19 pandemic and the uneven economic recovery have continued to impact small business owners.

It is especially critical to avoid placing additional burdens on microbusinesses and small businesses of color, which historically have been most vulnerable at times of economic peril. To that end, the Center for Responsible Lending (CRL) is advocating for two measures that would help small business owners: improving Paycheck Protection Program (PPP) loan forgiveness and strengthening section 1071 of the Dodd-Frank Act.

Paycheck Protection Program (PPP)

The PPP was designed as a forgivable loan to help minimize business closures and limit unemployment during the pandemic. Congress promised that funds spent properly would not have to be repaid, and America's small businesses owners relied on that promise to keep their doors open and their employees paid. While the PPP's impact was significant, rollout of the program was chaotic. Not only did small businesses in communities of color have unequal access to federal relief, but in part due to complex and constantly changing rules, these small businesses continue to receive unequal access to forgiveness.

Microbusiness owners with loans for \$25,000 or less are most likely to have not received any forgiveness for their 2020 Paycheck Protection Program Loans

Unforgiven 2020 Paycheck Protection Program Loans by Size of Loan



Source: Bloomberg analysis of Small Business Administration data last updated on Jan. 3, 2022

Over 400,000 PPP loans of \$25,000 or less made to microbusinesses in 2020 have not been fully forgiven.² Loans of this size are far more likely than all other loan sizes to have received no forgiveness at all.³ Because over 90 percent of businesses owned by people of color are microbusinesses, these outcomes disproportionately place the

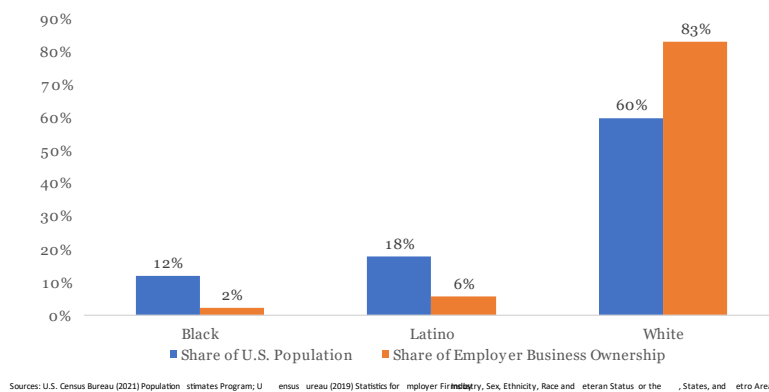
burden of unexpected debt on businesses of color.⁴ A failure to uphold the promise made by Congress and forgive these loans is exacerbating existing racial inequities in small business survival rates.

To remedy this issue, CRL is recommending the Small Business Administration (SBA) and Congress make the following changes, both for business owners who have not yet applied for forgiveness and those who already have been denied full forgiveness:

- Eliminate denials of loan forgiveness due to sudden changes in rules that were imposed without advance notice;
- Rescind and reverse the SBA’s Jan. 15, 2021, rule denying forgiveness to borrowers who made good faith errors; and
- Alleviate unnecessary paperwork burdens for microbusinesses by implementing automatic forgiveness for loans of \$25,000 or less.

Section 1071

Black and Latino-owned Employer Firms are Underrepresented Relative to their Population Size



Section 1071 of the Dodd-Frank Act requires the Consumer Financial Protection Bureau (CFPB) to increase transparency for small business lending by requiring lenders to collect and report data on credit applications made by women, Blacks, Latinos, and other minority-owned small businesses — groups who

have been historically underrepresented and have had more barriers to lender and credit access, resulting in less personal and family wealth on which to draw.⁵

The need for comprehensive data is not going away. According to the most recent available data from the U.S. Census Bureau, African Americans represent 12 percent of the U.S. adult population, yet own only 2 percent own employee businesses. In comparison, whites represent 60 percent of the population, but own 83 percent of employee businesses in America.⁶ Notably, SBA’s Office of Advocacy reports that 20 percent of white-owned employer firms obtain bank loans to finance their business, compared to only 15 percent of minority-owned employer firms.⁷

To ensure that sufficient data is collected to create greater transparency around the state of small business lending, CRL is advocating for CFPB to work expeditiously to ensure the following data collection and disclosure practices:

- Disaggregate race and ethnicity categories for collecting demographic data of credit applicants;

- Ensure comprehensive coverage of the small business lending marketplace;
- Require reporting of loan pricing data points; and
- Provide for robust public disclosure of 1071 data.

The above recommendations related to PPP and Section 1071 are the minimum needed to help ensure equity among underserved microbusinesses and businesses owned by people of color.

¹ Dilger, R. J. (2021). Small Business Administration and Job Creation (No. R41523). Congressional Research Service. <https://sgp.fas.org/crs/misc/R41523.pdf>

² Center for Responsible Lending analysis of Small Business Administration data updated on January 3, 2022. [PPP FOIA - Dataset - U.S. Small Business Administration \(SBA\) | Open Data](#)

³ Yee, Amy & Andre Tartar. (February 17, 2022). Small Businesses Still Face \$28 Billion of Unforgiven PPP Loans. Bloomberg. <https://www.bloomberg.com/news/articles/2022-02-17/small-businesses-still-face-28-billion-of-unforgiven-ppp-loans>

⁴ Employer and Nonemployer Firms: Firms and Receipts for Minority-Owned Businesses for 2018. (December 2021). United States Census Bureau <https://www.census.gov/library/visualizations/2021/comm/employer-and-nonemployer-firms.html>; see also Small Business Credit Survey, 2021 Report on Firms Owned by People of Color. (2021). Federal Reserve. [sbcs-report-on-firms-owned-by-people-of-color](https://www.fedsmallbusiness.org/sbcs-report-on-firms-owned-by-people-of-color) (fedsmallbusiness.org); and Survey of Business Owners. (2016). <https://www.census.gov/library/publications/2012/econ/2012-sbo.html#1/25>

note: over 95% of all Black-owned businesses and over 91% of all Latino-owned businesses are non-employer firms
⁵ Fairlie, Robb & Robinson, Black and Whites: Access to Capital Among Minority-Owned Startups, https://www.nber.org/system/files/working_papers/w28154/w28154.pdf
Small Business Credit Survey: 2021 Report of Firms Owned by People of Color, <https://www.fedsmallbusiness.org/medialibrary/FedSmallBusiness/files/2021/sbcs-report-on-firms-owned-by-people-of-color>

⁶ Calculations for employer businesses made using the U.S. Census Bureau's 2018 Annual Business Survey "Statistics for Employer and Nonemployer Firms by Industry, Sex, Ethnicity, Race, and Veteran Status for the U.S.: 2018"; population statistics calculated from the U.S. Census Bureau's 2019 American Community Survey "Annual Estimates of the Resident Population by Sex, Age, Race, and Hispanic Origin for the United States".

⁷ SBA's Office of Advocacy, "Small Business Finance FAQ," February 2022.