

## RE: People of Color and Women Entrepreneurs Unable to Access Small Business Support

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**Problem:** The most significant small business relief program—the SBA’s Paycheck Protection Program (PPP)—will provide little to no benefit to the vast majority of businesses owned by people of color and women.

Most small businesses, microbusinesses, and sole proprietorships led by people of color and women lack the capacity, accounting infrastructure, and banking relationships that would allow them to access the federal PPP loan. Many of these businesses are concentrated in low-income communities, putting the vibrancy and economic security of these communities at further risk during the pandemic. These businesses reflect the entrepreneurial spirit of Houstonians—forging their own economic path with talent, persistence, and often as a necessity to overcome employment barriers and discrimination.

**Context:** The financial and economic health of the small business sector plays a significant role in shaping the financial and economic health of local communities. [Across the United States](#), 80 percent of all businesses have no employees at all (i.e. sole proprietors), and of those with employees, over 99 percent have fewer than 500.

On April 3, the federal [Paycheck Protection Program \(PPP\) loan](#) began to deploy the \$349 billion earmarked to provide “small businesses” with up to \$10 million in forgivable loans. The program allowed [all businesses](#) – including nonprofits, veterans’ organizations, Tribal business concerns, sole proprietorships, self-employed individuals, and independent contractors – with 500 or fewer employees to apply.<sup>1</sup> This broad eligibility criteria, coupled with an exceedingly fast process with [lagging/unclear guidance](#) for both borrowers and lenders, resulted in businesses with significant capacity and legal/financial expertise best positioned to apply.

Furthermore, the 7(a) loan was quickly administered by banks that were existing SBA-certified lenders, a pool of lenders that has been [criticized](#) as having an [insufficient track record](#) of providing access to capital to underserved businesses owned by women and people of color. In [less than 14 days](#), all PPP funds were exhausted due to high demand, with more than 1.6 million loans processed by ~5,000 lenders.<sup>2</sup> It’s estimated that as of April 17, [approximately 80 percent](#) of small businesses that applied for a loan were still waiting for answer the day after the program ran out of funds.

Other challenges with PPP loan implementation included:

- Most banks communicated they would [serve their existing clientele](#) only, thereby leaving out the un/underbanked—typically business owners or color—and [compounding long-standing issues](#) related to access to wealth-building capital.
- The financial incentives encouraged lenders to serve clients with larger loan sizes, and thus larger “small businesses.” [Allowable processing fees](#) ranged between 1-5% of processing fees for loans less than \$350 thousand and at least \$2 million, respectively, with banks earning an estimated [\\$10 billion in fees](#).<sup>3</sup>
- Smaller sized, community banks more connected with underserved communities [did not have sufficient cash or capacity](#) to process the PPP loan at scale.

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<sup>1</sup> Businesses in certain industries can have more than 500 employees if they [meet applicable SBA employee-based size standards](#) for those industries.

<sup>2</sup> “The SBA has processed more than 14 years’ worth of loans in less than 14 days,” said U.S. Treasury Secretary Steven T. Mnuchin and SBA Administrator Jovita Carranza in a [joint statement](#).

<sup>3</sup> As a result, the SBA Administrator announced SBA will review all loans in excess of \$2M to make sure borrowers’ self-certification for the loans was appropriate.

- The PPP regulation issued makes access to the loan [more difficult for 1099 contractors](#) given their exclusion from business payroll costs, with the [practical impact being their exclusion](#) given the complexity of the application process.
- Given that microbusinesses, sole proprietors, and contractors often have very low fixed costs (i.e. payroll, rent, utilities), the [PPP loan rules and forgiveness conditions](#) did not truly apply to them.

On April 21, 2020 the PPP loan program was replenished with a new federal investment of \$310 billion with new stipulations, including a set aside of \$30 billion for providing loans to underserved businesses, including Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs). However, several policy and advocacy groups have criticized this carve-out as “[in name only](#)” and “[deceptive](#)” because of the expansion of eligible lenders to include “small banks” with assets of less than \$10 billion. This results in more than 95% of all banks in the country to be eligible for this set aside funding and predicted to quickly deplete it.<sup>4</sup> To date, [just 8% of the nation’s CDFIs](#) have been authorized to distribute PPP funds.

Looking locally, of the ~123 thousand Houston Metro’s businesses, about [73% are small businesses](#) with less than 10 employees. Across the three-county region, there are ~560 thousand “nonemployer businesses” with no paid employees representing self-employed entrepreneurs—generating \$28 million in receipts in 2017.<sup>5</sup> Major local efforts to support small businesses have also been fraught with challenges, despite good intentions. Under the leadership of Harris County Judge Lina Hidalgo and Harris County Commissioner Adrian Garcia, a \$10 million loan fund was [depleted in less than 48 hours](#), with broad eligibility criteria and credit requirements that made it difficult for small/microbusinesses led by people of color to access these funds.

**Opportunity:** [According to a national analysis](#), Houston ranks #1 in the United States for minority entrepreneurs, based on criteria such as startup density, rate of new entrepreneurs, percentage of companies owned by minorities, and access to financial resources. However, with a significant majority of the region’s population people of color, only 42.5% of Houston’s employer small businesses, or small businesses with at least one employee, are minority-owned. Just 24% of employer small business in Houston are women-owned. In particular, minority-owned businesses in Houston are denied loans at 3 times the rate of non-minority-owned firms—inhibiting business growth and closing of wealth gaps.

Our region’s support of business owners and entrepreneurs, particularly those led by people of color and women, is fragile and [only just beginning](#) a path to become strong and more cohesive. Small/micro-business owners and self-employed entrepreneurs provide for themselves and their families. They are unable to access the PPP loan and [unemployment benefits](#) during one of the most difficult economic contexts the country and globe has ever experienced. This hardship will only continue.

Ideas to consider and further explore:<sup>6</sup>

- A pooled fund to provide local CDFIs capital to deploy grants or small, yet meaningful low-interest loans to small/micro businesses (\$5-10 thousand). This could be a revolving loan fund that is replenished over time and/or is re-invested in longer-term recovery services/issues areas. This strategy could be coupled with establishing a coordinating entity to maximize the reach into underserved communities among a network of CDFIs and other nonprofits that service the entrepreneur community.
- A specific Fund to offer small grants to microbusinesses/sole proprietors similar to the [\\$5 million Chicago Microbusiness Recovery Grant Program](#) recently launched by the City of Chicago.

<sup>4</sup> On April 29, 2020 the SBA announced that [small lenders would have an exclusive 8-hour window](#) lending institutions with asset sizes less than \$1 billion dollars aimed to provide increased opportunity for many entrepreneurs connected to smaller banks and credit unions.

<sup>5</sup> Source: U.S. Census Bureau, 2017 Nonemployer Statistics. Unknown the extent to which these businesses generate income that is concerned primary income. Nadia Valliani, 4/29/2020.

<sup>6</sup> Ideas informed by conversations with Carolyn Watson (JPMorgan Chase), Tia Fuentes (Wells Fargo), Marlon Mitchell (Houston Business Development Inc. – CDFI), Dr. Saleha B. Khumawala (Bauer College of Business), and Estella Gonzalez (BakerRipley - Small Business).