



**WRITTEN STATEMENT**

**BEFORE THE U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON SMALL  
BUSINESS**

**HEARING ON**

**“SMALL BUSINESS COMMITTEE PRIORITIES FOR THE 116<sup>TH</sup> CONGRESS”**

**February 13, 2019**

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**Small Business Majority**

Chairwoman Velázquez, Ranking Member Chabot and fellow members of the Committee,

Thank you for inviting me to speak with you today about 2019 policy priorities for our nation’s entrepreneurs.

Small businesses are the foundation of the American economy—one that ensures opportunity and prosperity for everyone. Indeed, entrepreneurship is essential to an inclusive society where all Americans can thrive on a level playing field.

Small business ownership is also a potent force that can help address the economic inequality that is holding us back from achieving our full potential—from providing sustainable high quality jobs to helping revitalize distressed neighborhoods and rural communities. A healthy entrepreneurial ecosystem provides an innovative and singular pathway for women, people of color, young adults, veterans, disabled people, immigrants and rural residents to enter the mainstream American economy and build income and independence.

As a long-time small business owner prior to founding Small Business Majority, I know first-hand how entrepreneurship can create lasting impact for both individuals and their communities. With this understanding, I founded Small Business Majority 13 years ago to create a national organization to empower America’s entrepreneurs to build a thriving and inclusive economy.

At Small Business Majority, we actively engage small business owners and policymakers in support of public policy solutions, and deliver information and resources to entrepreneurs that promote small business growth and drive a strong, job-creating economy. Our extensive scientific opinion polling, focus groups and economic research help us educate and inform policymakers, the media and other stakeholders about key issues impacting small businesses and freelancers, including access to capital, taxes, healthcare, retirement and critical workforce issues.

Small Business Majority has a network of 58,000 small business owners across the country, with eight regional offices. We work closely with our network and with more than 1,000 local business groups to create a strong small business voice in Washington and state capitals, and deliver critical education and resources to America’s job-creating entrepreneurs. Through our Entrepreneurship Program, we offer free education, tools and events to small business owners and aspiring

entrepreneurs about access to responsible lending options, retirement, healthcare, wealth building tactics and more.

Unfortunately, Washington persists in pursuing policies that favor large corporations over Main Street. And, all too often small business is perceived as just another narrow interest group, not an essential component of our economic prosperity. Worse, small business' good name is often hijacked to justify policies that ignore the real needs of America's entrepreneurs in favor of policies that benefit a select few. Changing this counterproductive dynamic begins with smart policies aimed at ensuring entrepreneurial success in all segments of our society.

We have created a [policy agenda](#) that will promote a thriving economy and increase prosperity for all. Our agenda includes short and long-term recommendations that can be enacted at the national, state and local levels. The agenda focuses on seven topics:

- 1) Access to capital
- 2) Healthcare
- 3) Retirement and other portable benefits
- 4) Entrepreneurship and the freelance economy
- 5) Supporting a skilled small business workforce
- 6) Infrastructure and economic development, and
- 7) Taxes

Today, I will focus on the first three areas, while also offering insight into how our nation can address the needs of underserved entrepreneurs—women, people of color and rural small business owners.

### **Expanding access to capital and responsible alternative lending, especially for underserved entrepreneurs**

Despite the importance of small businesses to our economy, small business owners—particularly women, people of color, rural entrepreneurs—face significant hurdles accessing capital. Harvard Business School's 2016 report "[The State of Small Business Lending](#)" found that the small business share of total bank loans fell from 31% in 2010 to 21% in 2016. And while women-owned firms are the fastest-growing segment of businesses, studies find that women do not get sufficient access to loans and venture investment. According to Biz2Credit's 2017 [State of Women-Owned Small Business Finance Study](#), women business owners get nearly 50% less in funding than their male counterparts. Similarly, a [SBA study](#) found African American and Hispanic business owners were most likely to report unmet credit needs.

New alternative and online lending opportunities have sprung up to fill this market need, which is a potentially positive development for small businesses. Innovators are providing faster and easier ways to borrow and increasing access to credit in communities that have historically been underserved. However, alternative sources of financing operate in an almost entirely unregulated market—making many small business owners vulnerable to predatory practices. The transformation in small business lending holds great potential, but this can only be achieved if the industry is built on transparency, fairness and putting the rights of borrowers at the center of the lending process.

A desire to encourage responsible innovation in online lending is what drove us to co-found the Responsible Business Lending Coalition (RBLC) in 2015. The RBLC has published the Small Business Borrowers' Bill of Rights, a guide for responsible business lending standards that more than 90 fintech lenders, banks and other groups have signed on to. The RBLC has also produced policy

recommendations for a national Small Business Truth in Lending Act that would ensure small businesses can make informed borrowing decisions.<sup>1</sup>

In addition to promoting responsible lending practices, federal policymakers should pursue policies that: 1) Increase entrepreneurs' access to traditional sources of capital, 2) Promote the expanded use of equity investments for small businesses. At their core, these policies should particularly focus on increasing access to capital for those who currently have the greatest need—women, entrepreneurs of color and rural business owners. Congress should also increase funding for technical assistance providers to ensure small business owners have access to the resources they need to navigate the funding landscape. Key recommendations include, but are not limited to, the following:

- Quadruple Small Business Administration (SBA) lending guarantees—for example, by raising the maximum guaranteed annual loan amount from \$25 billion to \$100 billion—and thereby increasing the volume of small business loans guaranteed by the SBA to \$1 trillion over the next decade.
- Reduce the risk of small business lending for banks by increasing the loan guarantee percentages from 85% to 90% for loans up to \$150,000 and from 75% to 85% for loans between \$150,000 and \$700,000.
- Dramatically expand the annual budget of the Community Development Financial Institutions (CDFI) Fund from \$250 million to \$1 billion. CDFIs are fundamental in breaking down barriers to capital access for small businesses. Expanding the Fund will further increase investment in small firms, especially those in underserved communities.
- Reaffirm the Community Reinvestment Act's (CRA) mission of stimulating lending in low- and moderate-income areas to ensure business owners in these areas maintain access to capital.
- Facilitate access to equity financing to small businesses within new Opportunity Zones investments.
- Engage and mobilize potential angel investors by creating more tax incentives.
- Prohibit "confessions of judgment," in which borrowers agree in advance to lose any dispute with a lender, as proposed in the bipartisan Small Business Lending Fairness Act.
- Pass legislation extending Truth in Lending Act disclosure requirements to small business loans or credit products, such as California's small business truth in lending legislation enacted in late 2018. Disclosures should include the following seven features, per the RBLC:
  - Financing Amount: Include "Disbursement Amount" accounting for fees or charges withheld at disbursement.
  - APR or "Estimated APR": APR is the only established metric that enables informed comparisons of the cost of capital over time, and between products of different dollar amounts and term lengths.
  - Payment amount and frequency: Include the "Total Monthly Payment Amount" if payment frequency is other than monthly. This is to enable apples-to-apples comparison between products offered with daily, weekly, bi-weekly, and monthly payments.
  - Term, or Estimated Term in the case of variable term financing.

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• <sup>1</sup> "Policy Recommendations for a Small Business Truth in Lending Act," Responsible Business Lending Coalition, December 2018, [http://www.borrowersbillofrights.org/uploads/1/0/0/4/100447618/rblc\\_small\\_business\\_truth\\_in\\_lending\\_act\\_reccomendations\\_12-18.pdf](http://www.borrowersbillofrights.org/uploads/1/0/0/4/100447618/rblc_small_business_truth_in_lending_act_reccomendations_12-18.pdf)

- All Upfront and Scheduled Charges listed with dollar amounts.
- Prepayment charges: A description of any financing amount due when financing is paid in full, if paid early.
- Collateral requirements, if any.

## Strengthening healthcare marketplaces and promoting affordability

Over the past seven years, the Patient Protection and Affordable Care Act (ACA) has provided healthcare to 24 million individuals who otherwise couldn't access coverage, many of whom work for small employers or are themselves business owners and self-employed individuals. Indeed, more than 5.7 million small business employees or self-employed workers are enrolled in the ACA marketplaces, and more than half of all ACA marketplace enrollees are small business owners, self-employed individuals or small business employees.<sup>2</sup>

The ACA has a profound impact on our nation's growing ranks of solo entrepreneurs, many of whom previously could not afford coverage due to pre-existing conditions or were tied to jobs where they were guaranteed health coverage. Nearly 3 in 10 self-employed adults were uninsured in 2013. As of 2016, the uninsured rate for these individuals had fallen to 19.2%, a decline of 35% following the implementation of the ACA. What's more, the protections extended by the ACA are popular with small business owners. According to research from Thumbtack, 82% of small business owners want to guarantee protections for patients with pre-existing coverage, 74% support subsidies for low-income Americans to purchase insurance and 82% support Medicaid expansion at the state level.<sup>3</sup>

Despite this undeniable progress, healthcare continues to be a major concern for America's entrepreneurs. Recent analysis has shown that actions by federal policymakers are causing the uninsured rate to rise for the first time in years. Alongside the repeal of the individual mandate, the federal government is promoting risky alternatives, such as association health plans and short-term plans. All of these actions will cause yet even more market instability, not to mention provide woefully inadequate coverage. All of this change poses a continued risk to America's 30 million small businesses and the additional 30 million Americans who work for them. However, there is much that can and must be done.

We must (1) strengthen healthcare markets and (2) expand health coverage, while (3) simultaneously turning our attention to reducing drug prices and containing other inefficient underlying costs in the system. Specific policy recommendations include:

- Maintain health protections for individuals with pre-existing conditions. This provision has enabled many would-be entrepreneurs to leave traditional jobs to start their own small businesses since they can access affordable, quality health coverage on their own through the individual marketplaces.
- Address the rising costs of prescription drugs, as these costs are hurting small business owners' bottom lines.
  - For example, the Transparent Drug Pricing Act would mandate drug manufacturers to disclose information that influences drug prices, such as manufacturing and marketing costs, in an effort to bring about more transparency.
  - Allow Medicare to negotiate prices with drug companies. We urge Congress to pass legislation such as the Medicare Drug Price Negotiation Act that allows for the negotiation of lower drug prices under Medicare Part D.

<sup>2</sup> "Small businesses see significant gains from the ACA," Small Business Majority, October 2018, <https://smallbusinessmajority.org/our-research/healthcare/small-businesses-see-significant-gains-aca>

<sup>3</sup> "2018 Small Business Friendliness Survey," Thumbtack.com, August 2018, <https://www.thumbtack.com/survey#/2018/1/states>

- Protect consumers from surprise billing by limiting patient cost-sharing to the amount they would owe to an in-network provider, setting a payment standard regarding what insurers owe providers in these situations and prohibiting providers from balance billing patients, as proposed in the Protecting Patients from Surprise Medical Bills Act introduced in Congress last year.
- Create more transparency on pricing and quality to allow patients to make informed decisions about where they receive care, which will benefit the healthcare system overall
- Block the extension of short-term, limited duration insurance plans. These plans are intended to fill gaps in an individual's coverage in the event of job loss or other life changes, but are not required to cover essential health benefits like prescription coverage or mental health treatment and can come with hefty deductibles.
- Oppose efforts to implement association health plans, which would encourage younger, healthier groups to purchase inadequate coverage, thus increasing costs for most of the small group market and potentially cause a market death spiral.
- Provide additional options for consumers by allowing them to buy in to Medicare or Medicaid. For example, Congress could enact legislation such as the Medicare at 55 Act, introduced in Congress in 2017, which would allow individuals aged 55 to 64 to buy into Medicare. The State Public Option Act, also introduced in 2017, would allow individuals who are eligible to enroll in the marketplace and not concurrently enrolled in other health coverage to buy into a state Medicaid plan.
- Guarantee payments to insurers for cost-sharing subsidies, which will help many entrepreneurs and small business employees afford health coverage. This can be done by passing bipartisan legislation such as a bill put forth by Senators Alexander and Murray in 2017 that would ensure payments and add \$100 million in funding for outreach and enrollment activities for two years.
- Create a reinsurance program, which would help stabilize premiums in the individual marketplaces by providing support for insurers facing high financial losses. For example, Senators Collins and Nelson proposed legislation in 2017 that would have provided \$4.5 billion in reinsurance funding over two years to help lower insurance premiums by compensating insurers for their most expensive customers.

## **Increase access to retirement and other portable benefits**

The way Americans work and start a business is changing—people switch jobs more frequently throughout their careers and they are more likely than ever to work as a contractor or freelancer than as a W-2 employee. While flexible work arrangements can be positive, they can leave individuals without important benefits traditionally tied to one's employer. No one's financial security, ability to afford benefits like healthcare or capacity to take time off of work to care for a new child or sick family member should depend on their employment status. Today's entrepreneurs and small business employees need a modernized benefits infrastructure that promotes quality jobs for those who do not work for large organizations. In order to support our evolving entrepreneurial community, we recommend the following policies:

- Support federal efforts to establish publicly-administered retirement savings programs (like "Secure Choice" or auto-IRA) programs, which our polling shows small businesses support. Numerous bills were introduced last Congress, such as the Automatic IRA Act, which proposed an auto-IRA arrangement for eligible employees and provide employers with fewer than 100 employees with a tax credit for the costs associated with establishing such an arrangement. Moving forward, legislative proposals should include the following provisions:
  - Enroll employees automatically, but allow them to opt out.

- Ensure employee contributions are portable between jobs.
- Make participation open to the self-employed.
- Pass the FAMILY Act to establish a national program that would provide partial wage replacement for small business employees and the self-employed to access parental leave or to handle serious health conditions for themselves and family members. Our polling found 70% of small employers believe it's important to establish a federal program to guarantee access to paid family and medical leave.
- Adopt policies to make workers compensation and unemployment insurance available to non-traditional workers and reform requirements that penalize non-traditional work.
- Encourage the U.S. Department of Labor to institute a Benefits Innovation Fund to stimulate more investment in portable benefits models.

## Addressing the unique opportunities and challenges facing rural entrepreneurs

Rural entrepreneurs start businesses at higher rates than their urban counterparts and have higher five-year business survival rates, and these businesses play a particularly vital role in rural America, creating roughly two-thirds of new jobs and supporting the economic and social wellbeing of their communities.<sup>4</sup> Nationwide, small business owners generate more local economic benefit than larger corporations, a fact that holds true for rural entrepreneurs as well.

While local businesses are vital to rural communities, rural communities have struggled to recover economically from the Great Recession, lagging behind their urban and suburban counterparts. Indeed, a 2016 report from the U.S. Department of Agriculture found that while the national unemployment rate has returned to pre-recession levels, it is still well below pre-2008 levels in rural areas.<sup>5</sup> Stimulating rural entrepreneurial activity could help reverse these trends and create more economic opportunity for rural residents. Small Business Majority published a report this week examining the unique needs and challenges of small business owners in rural communities by conducting in-person field research as well as a national poll. Our findings allowed us to identify specific policy proposals to boost rural entrepreneurs, including:

- Connect regional business support organizations with more federal resources and SBA programs. This involves maintaining and expanding SBA lending, counseling and procurement programs. This must also include providing rural small businesses, particularly businesses owned by people of color, with increased opportunities to participate in SBA loan programs and SBDC programs that provide vital education and outreach to entrepreneurs.
- Ensure current programs that support rural entrepreneurs continue. Programs such as the Rural Microentrepreneur Assistance Program, Value-Added Producer Grants and the Intermediary Relending Program administered by the U.S. Department of Agriculture are examples of federal programs that provide important support for rural entrepreneurs.
- Ensure Opportunity Zones guidelines are designed to benefit Main Street small business owners rather than focusing on incentivizing real estate development. Roughly 40% of Opportunity Zones are in rural zip codes. While these investments hold the potential to benefit small businesses, especially those in underserved communities, they must be implemented responsibly. This could include requiring reporting metrics that measure program success based on the number of jobs created, where those jobs are located, employee wages and the number of businesses created, particularly businesses formed by

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<sup>4</sup> "Six charts that illustrate the divide between rural and urban America," Brian Thiede, Lillie Greiman, Stephan Weiler, Steve C. Beda and Tesa Conroy, *The Conversation*, <http://theconversation.com/six-charts-that-illustrate-the-divide-between-rural-and-urban-america-72934>

<sup>5</sup> "Rural America at a glance, 2016 edition," U.S. Department of Agriculture, November 2016, <https://www.ers.usda.gov/publications/pub-details/?pubid=80893>

women or people of color. Metrics should also include assessment of displacement risks for small businesses.

- Use tax credits as a tool to spark economic development. For example, the New Markets Tax Credit has helped attract more than \$60 billion in private sector funding to build businesses in economically-distressed communities across the United States.
- Ensure broadband is available to underserved, rural communities through activities to incentivize public alternatives to big Internet providers such as Comcast or Verizon at both the state and local level. Examples include state or federal grants or tax incentives to service providers as well as regulatory reforms that promote broadband construction.
- Ensure governmental support for physical infrastructure projects that directly benefit small business commercial enterprises. For example, we recommend promoting supply chain diversity as part of any comprehensive infrastructure proposal to ensure small firms, especially those in rural and underserved communities, are able to participate in infrastructure investments. Governments should also ensure that contracting opportunities are available to small businesses as part of any infrastructure reform.

## Conclusion

Small business owners are poised to inject life and vitality into their communities, provide quality jobs and boost prosperity for all, but they need the proper resources and public policies to support them in unleashing their potential. The 116<sup>th</sup> Congress has a clear opportunity to promote policies that truly address the needs of America's entrepreneurs, rather than just paying lip service to the small business community while keeping the scales tipped towards big business. We urge federal policymakers to enact these and other policies in order to expand access to capital, provide affordable, quality healthcare for all and ensure no one's access to benefits depends upon their job status. What's more, federal policy must emphasize solutions that lift up those entrepreneurs who have traditionally struggled to access resources and economic security most, including women, entrepreneurs of color and rural small business owners. Pursuing this policy agenda will create a thriving small business ecosystem that will in turn create a dynamic and inclusive American economy for all.

Thank you for the opportunity to comment on these important issues for America's small business community. I am happy to answer any questions.