



U.S. SMALL BUSINESS ADMINISTRATION

WASHINGTON, D.C. 20416

**Testimony of Grady Hedgespeth
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**Before the
Committee on Small Business & Entrepreneurship
United States Senate**

***Assessing Access: Obstacles and Opportunities for Minority Small Business Owners in
Today's Capital Markets***

April 15, 2010

Chair Landrieu, Ranking Member Snowe and members of the Committee, thank you for the opportunity to discuss access to capital for minority-owned small businesses. At SBA we understand the unique challenges that underserved communities face in the current economic environment. SBA's loan programs are designed to fill various market gaps, including those created by racial discrimination. Historically, small businesses in these underserved communities are among the hardest hit during tough economic times, and based on what we've seen, that is certainly the case in this recession. However, SBA remains fully committed to helping small businesses in these underserved communities obtain the financing they need to start and grow successful small businesses.

That commitment is evidenced by SBA's proven track record of assisting minority-owned firms through our 7(a) and 504 guaranteed loan programs, as well as our microloan program. According to a study by the Urban Institute, SBA-backed loans are about three times more likely than conventional loans to go to minority-owned firms. Also, minority small business loans constitute a percentage of our loan dollar volume that is about 5 times greater than that of the private sector. In 2009, 22% percent of all SBA-backed loans were made to minorities.

As we move forward in addressing the specific barriers that underserved communities — particularly minority communities — face, SBA continues to explore ways to engage its partners that share a commitment to this mission.

SBA's Microloan program is an important way that the Agency focuses on underserved markets. SBA makes direct loans to nearly 180 community-based microlender intermediaries who provide both loans and technical assistance to small business borrowers. Forty percent of SBA

microloans are made to minorities. The Recovery Act temporarily increased funding for this program. As a result, SBA has engaged 20 new microlending partners this year and continues to expand the reach of this program.

SBA also recognizes that many small businesses need more than just a loan—they need counseling and technical assistance to help strengthen their business plans and make them more “bankable” in this tight lending environment. To fill this need, SBA is working closely with its nationwide network of partners, which includes about 900 Small Business Development Centers, 350 SCORE chapters, and more than 100 Women’s Business Centers. These partners, and other organizations that receive SBA PRIME grants, work to assist small businesses in underserved markets.

SBA is particularly excited about the results we are seeing from emerging leaders (formerly E-200), an intensive entrepreneurship training pilot for promising firms in our inner cities. In 2009, SBA provided training to businesses in New Orleans, Baltimore, and Atlanta, among other cities. Sixty-two percent of the participants were minorities. Our early indicators show that 63 percent of participating companies hired new employees, of which 43 percent were hired from the local inner-city community. This initial data is one reason the President’s FY11 budget asks for funding to expand this program. SBA will continue to track the correlation between firm participation and hiring to help improve the program and determine its impact.

In addition to our counseling and lending programs, SBA also provides support to minority-owned small businesses through its 8(a) and HUBZone business development programs. These programs help qualifying small businesses compete in the federal procurement marketplace. But a recent federal court ruling suggests that it would be useful to clarify and reiterate Congress’s original intent that there be parity among the SBA’s contracting programs.¹ SBA hopes that Congress will act swiftly to resolve this issue, and we look forward to working with you and your counterparts in the House to confirm “parity” among SBA’s contracting and business development programs.²

SBA takes the issue of access to effective tools, including capital, contracts and counseling, very seriously because we know that minority and women-owned small businesses are among the fastest growing segments of our economy. We hope this hearing will provide valuable insights into the challenges that the current economic climate poses for minority-owned businesses and underserved markets more broadly. We also hope this hearing will highlight the incredible potential these businesses have to help lead us into full economic recovery.

SBA thanks the Committee for inviting us to participate in this important discussion. I am happy to take your questions.

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¹ Mission Critical v. U.S., (09-864 C, Ct. of Fed Claims, Feb. 26, 2010).

² SBA strongly supports legislation to clarify and reiterate Congress’s original intent not to prioritize one small business development program over another.