LATINO ECONOMIC DEVELOPMENT CENTER

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Provided to The Federal Reserve Board and the Federal Deposit Insurance Corporation (FDIC)
"Proposed merger of BB&T Corporation, Winston-Salem, North Carolina, with SunTrust Banks, Inc., Atlanta, Georgia"
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LEDC is a 28-year old organization with the mission to drive the economic and social advancement of low to moderate income Latinos and other underserved communities in the Greater D.C. and Baltimore Metropolitan Areas by equipping them with the skills and tools to achieve financial independence and become leaders in their communities. We operate out of 6 offices in the region, with over 40 professional and bilingual staff providing top-notch services to our clients. On an annual basis we serve well over 4,000 low- to moderate-income residents. Scanning all of our programs, the majority of our clients are Latino (60%) and a sizeable portion are African-American/Black (30%). The remaining portions are White/Caucasian and Asian (10%). Our core asset-building programs are: Housing Counseling, Affordable Housing Preservation; Small Business Capacity Building; and Small Business Lending. We are a SBA- Microlending Intermediary and certified Community Development Financial Institution (CDFI). LEDC receives support for our small business services from partners including the Small Business Administration, CDFI Fund (Treasury), private corporations, and philanthropic foundations.

Since we began lending in 1997, we have rolled out more than $16 million in capital in the form of over 1,200 small business loans. We've provided small business technical assistance services to thousands of aspiring and existing small business owners in the region. Last year, LEDC distributed close to 200 loans in the communities we serve.

Our reason for existence is to help underserved populations overcome the challenges that stand in the way of them reaching their full potential for achieving financial stability and income mobility. The entrepreneurs we serve face formidable hurdles in starting and expanding their businesses and it's our role to help them overcome and eliminate those hurdles. While the challenges are countless, those that I would characterize as the most significant are:

- Lack of access to capital,
- Lack of access to information and educational resources;
- Poor or no credit history, and
- Systemic and institutional racism and sexism.

### LACK OF ACCESS TO CAPITAL

According to an August, 2018 report from the Small Business Administration, the most common source of capital to finance business expansion is personal and family savings, with 22% of entrepreneurs relying on that source. However underserved entrepreneurs do not frequently have sufficient savings built up or friends and family that can personally invest in their business ventures. They do not have the proverbial "rich uncle" to reach out to for an interest-free family loan or grant. Thus, they turn to institutional lenders, credit cards, or alternative sources of financing that often come with a hefty price tag.

Unfortunately, traditional commercial banks are often not a viable resource for underserved small businesses. Commercial banks typically have a fixed minimum credit score they will accept for loan approvals and are further hindered from serving small business due to restrictions around lending to start ups or providing smaller-dollar financing. A recent report from the Woodstock Institute cited that the number of CRA-reported loans under $100,000 in 2015 remained 58% lower than in 2007. What's more, bank branches are consolidating and closing at a steady clip, with 1,700 bank branches closing in the 12 months between June, 2016-June, 2017. This environment is not small-business friendly.

The alternative for underserved entrepreneurs operating in this climate is to take out credit cards that often charge high interest rates; access high-cost financing via the emerging online lending industry; tap into merchant service cash advances; obtain a loan from a loan shark; or tap into the Community Development Financial Institutions in their area. I will note that we have several loans in our portfolio that are restructured financing deals for entrepreneurs who fell prey to the allure of online lenders promising fast cash, only to realize they had signed off on deals that were, indeed, too good to be true.

On the other hand, data shows that CDFIs in OFN's membership alone have originated more than $54.9 billion in financing in urban, rural, and Native communities through 2016. To quote OFN's President, Lisa Mensah, "CDFIs exist to move money to places missed by traditional lenders." However, CDFIs face challenges in terms of reaching the very communities that need our services due to minimal or nonexistent marketing budgets; challenges to capitalizing our loan funds, and/or sustaining the high overhead costs associated with the labor-intensive loans we underwrite.

### LACK OF ACCESS TO INFORMATION AND EDUCATIONAL RESOURCES

Starting or growing a business is not for the faint at heart. In an ideal scenario, an entrepreneur has the time and support to complete an in-depth business plan, complete with a detailed market analysis, elaborate revenue projections, a well-developed management plan, and options for financing their one-time start-up costs as well as the ongoing or variable costs to come. This plan provides a framework and sequencing that sets up the entrepreneur for success. Unfortunately, underserved entrepreneurs do not always have access to business planning information or resources. Nor, do they have time to invest in business planning as they are looking to their business idea as a source of income for themselves and their family. We have had many a client come to our doors with business cards and a signed lease in hand…BEFORE they have mapped out how their idea will play out as a living business.

In addition, the regulatory framework is a maze of processes and agencies that few could understand without outside support. Depending on the business type, entrepreneurs frequently need to go through several licensing agencies and register with their state and jurisdiction to be compliant. Layer on top of that the language barrier that many of our immigrant Latinx clients face, and it's doubly challenging to meet compliance requirements. Organizations that provide small business coaching and training are critical to helping underserved entrepreneurs to navigate the regulatory framework and adequately plan their businesses from concept to implementation.

### POOR OR NO CREDIT HISTORY

The 2017 Small Business Credit Survey found that 50% of small businesses rely exclusively on their owners' personal credit scores to secure debt and another 37% use both the owners' personal scores and business credit scores. According to Forbes 2018 article, *Why Minorities Have So Much Trouble Accessing Small Business Loans*, "The average minority small business owner has a credit score of about 707—15 points lower than the average small business owner in the U.S. A nearly perfect credit score is basically mandatory for the most advantageous bank loans, even though there are numerous plausible explanations as to why an otherwise responsible and dedicated business owner would have poor or very little credit history."

Meanwhile 50% of LEDC's lending goes to entrepreneurs with credit scores lower than 640, which is considered "Fair" by the credit bureaus and would never be sufficient to clear a traditional bank loan.

For Latinx communities, the culture of credit that prevails in the United States is not always culturally compatible with the cash-based and distrusting of financial institutions experience of their home countries. Many of our clients keep cash in their homes, rather than place it in a bank. In addition, given current anti-immigrant sentiments, there is a segment of our client base that distrusts institutions in general for perceived fear of undermining their ability to live in the United States.

**SYSTEMIC AND INSTITUTIONAL DISCRIMINATION ON THE BASIS OF RACE, ETHNICITY, AND/OR SEX**

Underserved small business clients face institutional and systemic discrimination on the basis of race, ethnicity, and/or sex. A 2016 Independent Business Survey conducted by the Institute for Local Self Reliance reported that of the business owners who applied for a bank loan in the past two years, 54% were rejected. The Minority Business Development Agency's (MBDA) research finds that minority business owners are denied loans at nearly three times the rate of non-minority owners. More troubling is that even when minority owners have access to capital it comes at an inequitably high cost. A recent report in Forbes, co-authored by staff from the Kauffman Foundation, found that minority business owners receive higher borrowing costs, are offered smaller loans, and have their loan applications rejected more often than non-minority applicants. The study goes to on to describe that even when minority-owned businesses have identical business characteristics and credit reports compared to their non-minority-owned counterparts, they still gain less access to credit.

The lending gap for women is also dramatic. Biz2Credit, a fintech company, reports that in 2017, women-owned businesses received nearly 50% less funding than men-owned businesses, and that funding for women-owned businesses declined by 42% between 2016 and 2017.

For immigrant and Latinx populations, the language barrier can present unfortunate opportunities for being taken advantage of. Many of our clients sign off on contracts or leases with extremely unfavorable terms due to their lack of understanding. We also find that unethical characters prey on immigrant communities and charge exorbitant rates for services that are free or low-cost to the public such as registering a business or obtaining permits or business licenses.

CDFIs and small business technical assistance providers can mitigate the challenges posed by systemic and institutional discrimination by targeting the very populations that are victims of discrimination. Given our commitment to not prey on underserved communities, CDFIs with a focus on microlending tackle the riskiest of transactions that are critical to the economic advancement of underserved communities. We therefore depend on the financial support of government, foundations, and commercial banks to address this financial market failure.

With this merger, BB&T and Suntrust will become one of the largest banks in our nation. We are greatly appreciative of the support they have provided us to date. BB&T financed the purchase of the location where we will house our headquarters in the District of Columbia, their staff collaborate with our staff, and they have provided some small dollar grants to our organization over the past few years. This year we received a small dollar grant from Suntrust.

However, we hope that as a merged entity they are able to scale their community re-investment efforts in a manner that reflects their new found stature in the banking world. While we have unfortunately found that very few of our clients are served by the largest financial institutions, some of these banks have made deliberate efforts in recent years, whether externally or internally compelled, to support disenfranchised communities by investing in community-based CDFIs like us. These investments have been large, multi-year grants with limited if any restrictions as these banks have hired community development experts that understand the difficulties of non-profit management and facilitating economic advancement. They recognize our service delivery expertise, connection to the community, and connect us with capacity building experts, but allow us to design significant initiatives that we know are best suited for the communities we serve.