

United States Senate

WASHINGTON, DC 20510

March 30, 2022

The Honorable Jerome H. Powell
Chair Pro Tempore
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

The Honorable Martin J. Gruenberg
Acting Chairman
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

The Honorable Todd M. Harper
Chairman
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Mr. Michael J. Hsu
Acting Comptroller
Office of the Comptroller of the Currency
400 7th Street SW
Washington, DC 20219

Dear Chair Pro Tempore Powell, Acting Chair Gruenberg, Chair Harper, and Acting Comptroller Hsu:

As small businesses across the U.S. work toward economic recovery from the COVID-19 pandemic, access to financing is vital to continuing the current rate of small business growth. As new business formation continues, we must ensure small businesses are receiving the credit they need. As such, we write to encourage your agencies to work with banks and credit unions in their communities to offer safe and sound financing access to small businesses.

Recent research by the Federal Reserve System found that less than one-third of small businesses that applied for traditional financing in 2021 received all the funding they sought compared to recent years.¹ Additionally, the research also found that more than half of firms were in fair or

¹ Ann Marie Wiersch, Lucas Misera, Alexander Marré, and Emily Wavering Corcoran, "The Small Business Credit Survey 2022 Report on Employer Firms," *United States Federal Reserve System*, (2022): 17.

poor financial condition at the time of the survey, and nearly all firms faced at least one operational or financial challenge in the prior 12 months.² The difficulty small businesses are experiencing in getting access to financing is a significant concern for the economy as small businesses comprise 99.9% of U.S. businesses and employ 46.8% of U.S. employees.³

Many small businesses have not recovered to pre-pandemic levels in terms of revenue and employment, and this is especially true for small businesses owned by people of color.⁴ Research by the Federal Reserve Bank found racial differences in financing sought among small business owners. About 14% of Black and Asian business owners, and 19% of Hispanic business owners, received all the financing they sought in 2021, compared to 34% of white small business owners.⁵ The COVID-19 pandemic has only worsened pre-existing inequalities in our economy for businesses owned by entrepreneurs from historically underserved communities. A driving force behind the nation's economy, businesses owned by people of color, women, and veterans need access to financing opportunities by banks and credit unions.

Banks are choosing to lend to bigger firms, and smaller businesses are suffering the consequences in an already restrictive environment. The data reported by the Federal Reserve Banks show that underwriting standards for commercial clients are diverging primarily based on business size.⁶ In a separate survey conducted by the Fed earlier this year, senior loan officers reported easing standards for large and medium-sized businesses than for smaller ones.⁷

The strong deposit growth at banks and credit unions should be used to support increased lending opportunities to small businesses by banks and credit unions in their communities. The latest financial performance data released by the National Credit Union Administration (NCUA) shows total assets in federally insured credit unions rose by \$215.8 billion, or 11.7 percent, to \$2.06 trillion over the year ending in the fourth quarter of 2021, and insured shares and deposits grew \$166.8 billion, or 11.4 percent, to \$1.63 trillion.⁸ Likewise, the Federal Deposit Insurance Corporation's (FDIC) total assets on insured commercial banks and savings institutions rose by \$1.9 trillion, or 8.5 percent, to \$23.7 trillion over the year ending in the fourth quarter of 2021, and insured deposits grew \$1.9 trillion, or 10.5 percent, to 19.7 trillion.⁹

As new business formation rose to record highs in 2021, there is a clear and important economic need for small business to have access to financing. Numbers released by the U.S. Census Bureau found that 5.4 million new business applications were filed in 2021, exceeding the record set in 2020 of 4.4 million.¹⁰

² Wiersch et al., i.

³ "2021 Small Business Profile," *U.S. Small Business Administration Office of Advocacy*, (2021): 1.

⁴ Wiersch et al., i.

⁵ Wiersch et al., 18.

⁶ Wiersch et al., 18.

⁷ "January 2022 Senior Loan Officer Opinion Survey on Bank Lending Practices," *Board of Governors of The Federal Reserve System*, (2022).

⁸ "Quarterly Credit Union Data Summary 2021 Q4," *National Credit Union Administration*, (2022): i.

⁹ "FDIC Quarterly Banking Profile, Fourth Quarter 2021," *Federal Deposit Insurance Corporation*, <https://www.fdic.gov/analysis/quarterly-banking-profile/qbp/2021dec/qbp.pdf#page=1>.

¹⁰ "2021 Business Formation Statistics Releases," *United States Census Bureau*, <https://www.census.gov/econ/bfs/data.html>.

We urge the banking agencies to work with banks and credit unions to encourage more lending to small businesses in a safe and sound way. We look forward to continuing to work with you to ensure small businesses across the U.S. are receiving access to financing to continue to rebuild their Main Street communities.

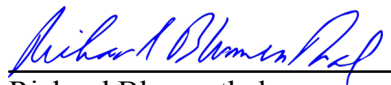
Sincerely,



Sherrod Brown
United States Senator




Richard J. Durbin
United States Senator



Richard Blumenthal
United States Senator



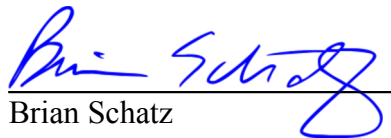
Kirsten Gillibrand
United States Senator



Tina Smith
United States Senator



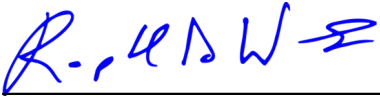
Catherine Cortez Masto
United States Senator



Brian Schatz
United States Senator



Charles E. Schumer
United States Senator



Raphael G. Warnock
United States Senator



Mark R. Warner
United States Senator