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Subject: CRA Regulations Hearings

Comments:

Date: Sep 01, 2010

Proposal: Community Reinvestment Act Regulation Hearings
Document ID: R-1386
Document Version: 1
Release Date: 06/17/2010
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Testimony of Shanaveon Pious, PhD Chief Executive Officer Entrepreneurs University Foundation To Federal Reserve Systems Board of Governors The Office of the Comptroller of the Currency The Office of the Thrift Supervision The Federal Deposit Insurance Corporation The Federal Reserve Bank and Others Regarding: R-1386 Written Testimony, Friday, August 27, 2010 Thank you for the opportunity to submit written testimony to the Federal Reserve System Board of Governors on the topic of Community Reinvestment Act (CRA). While many are focusing on community reinvestment act issues relating to housing, banking and personal mortgage investments within communities, I will focus on the challenges, impacts and recommendations as they relate to entrepreneurs and small business and the denied access to capital and community investments. I am encouraged that the issue of community reinvestment has once again become a topic of public policy in America. Since the disbursement of TARP funds, financial institutions have nearly toppled the small business community with denials to access to credit in any and all formats. Those who once had good credit now have no credit as they were turned away in their time of financial need by their own institutions. It appears that this TARP process has not yielded the results that were initially promised to the very people who live and do business in the disadvantaged communities. The withdrawing of financial resources for small business has been devastating. The Community Reinvestment Act (CRA) was intended to encourage depository institutions to help meet the credit needs of the Low-Moderate Income (LMI) communities in which they operated with specific emphasis being placed on low to moderate income neighborhoods and communities. It was enacted by Congress in 1977 (12 U.S.C. 2901) and was implemented by Regulation BB (12 CFR 228). In May 1995 it became necessary to make substantial revisions and was again amended in August 2005. To that end, the lending institutions have beguiled, destroyed and taken advantage of the common American family, the non-profit organizations, the

educational institutions and the small business community who were dependent on their ability to have access to credit through traditional and non-traditional financial options. Entrepreneurs University, the first and only University of its kind in the country providing entrepreneurial education to entrepreneurs and small business owners and those with an interest in wealth creation though senior management and business ownership. Dr. Shanaveon Pious, President of Entrepreneurs University, has represented the far south side of Chicago and the south suburban communities, which consists of Cook, Kankakee and Will Counties. While there are some south and south suburban communities that thrive, such as Flossmoor, Crete, Frankfort, Mokena, and Tinley Park, due to the economic differences in access to viable resources and services, higher income residents, better educational systems for its residents. However on the opposite end of the spectrum the number of economic opportunities and income thresholds for the disadvantaged poorer communities, traditionally known as LMI, such as Chicago's Englewood or Roseland areas and the south suburban communities of Dixmoor, Harvey, Posen, Riverdale, Phoenix and Robbins, many of these communities are home to single women, minorities and large population of underserved poor people. Entrepreneurs University has been providing small business and entrepreneurial education, advocacy, training and access to capital for more than ten years with great success. I hope that in the following pages you will understand the critical crisis small business owners face now more than every because community reinvestment is not just for homeowners, but for small business owners as well. The lack of CRA enforcement within targeted communities, especially the LMI communities leaves these communities in despair, joblessness and hopelessness. Each financial investment restores the balance between community and restoration of people. In the Post 9/11 era, America has undergone a massive change in the way it does business, with which it does business and where it does business. More opportunities had become available to entrepreneurs and small business owners to provide services and resources that would benefit the economic conditions of the disadvantaged communities. However while opportunities have opened, small business credit remains severely restricted and even more so today than immediately Post 9/11. It is widely known that access to credit has always been considered vital for small business survival, and commercial banks have often been regarded as the most important institutional supplier of credit to these businesses. Based on a 2003 survey, roughly 60.4 percent of all small firms used traditional credit and 68% of them obtained their credit frm the banking
sector (credit cards). Similar to established businesses, bank credit also plays a significant role in new business startups and entrepreneurial innovation. The small business community is impacted by the lack of community reinvestment activities. Small businesses are directly impacted in the following ways: Stagnated growth and expansion: Due to the lack of financial investments, small businesses are unable to grow beyond their current condition; this also includes inability to purchase new equipment that halts expansion. Cash Flow Crunch: As many vendors, clients and customers are taking longer to make full payments, they cause the small businesses to run out of money to pay their bills and their employees, which has caused massive employee layoffs and inability to hire new employees and/or retain old ones. Lack of Available Credit Lines: The financial institutions have withdrawn their available lines of credit to most of their small business customers, even for those
whom were in the middle of projects. The pullback of lines of credit even caused many of them to fall into major default asset liquidations, foreclosures and ultimately bankruptcy. Home and Business Foreclosures: The withdrawal and lack of credit availability has left many small business owners facing

foreclosures and bankruptcy of their personal homes and offices. Homes within neighborhoods are being boarded up at alarming rates as is small businesses located within the LMI communities. Employment: Studies have demonstrated that small businesses, in particular new businesses, are the generators of almost all new employment. Starting a new business means creating new capacities that requires the hiring of new employees to operate them. Economic and Community Development: The lack of CRA utilization and enforcement has stagnated community reinvestment within the LMI communities. We are witnessing the demise of the neighborhoods and communities because financial
investment has all but stopped. Commercial strips and malls are empty, and stores are closing on every corner. Big box retail space is being leased at unbelievable rates and at a loss to the developers. Developers are unable to realize any profits therefore the financial institutions are calling the loans causing the developer (small business owner) to liquidate. The small business community has identified the following as challenges for small businesses and without immediate assistance; they will continue to experience detrimental impacts to the business community and the LMI areas. Access to capital. While the world is reeling from the Wall Street fiascos, small business owners who once had good credit are now challenged with bad credit. This means they will no longer qualify for lending options. Even though their current situation was not directly their fault. Those businesses have made great strides to recover in a failing economy. Credit. Credit is critical to the ability of most small businesses to succeed. If credit remains as it is today and is essentially unavailable, small businesses may be unable to meet the current business demands and thus not have the capacity to compete in the open market place. The credit crisis has restricted the growth of the small business owner. No longer are they able to hire the help they need or increase services or even purchase new equipment. Lending institutions have increased their credit criteria by increasing what a small business needs in order to qualify. Special programming assistance. The CRA if properly administered could assist small businesses with lending opportunities. However they have determined that their dollars will not be utilized for small business initiatives. Thus none of the programs have been beneficial to assist the small business environment. Small business closing its doors. The inability to access credit has forced what was once a thriving small business economy into closing their doors. The cash flow situation is not being addressed for small business nor is it being addressed for big business, therefore we are experiencing the loss of jobs in the thousands and the economic impact is a national unemployment rate of 10.5%. No new small businesses. Entrepreneurship has seen a more acceptable trend in the marketplace and between the years of 2005 to 2008, new businesses generated more than six million new small businesses which accounted for two of every three positions in the workforce demand. However in 2008, when the financial market crashed, it took with it the ability for small businesses to grow and many had to close as the government stopped paying their bills and the bank stopped lending; according to small business owners they experienced extraordinary banking fees therefore forcing them to close their business and even personal accounts. In support of the Community Reinvestment Act (CRA) modernizatiorecommended by the Woodstock
Institute and others, I am contacting you to provide several recommendations to modernize the Community Reinvestment Act (CRA) as they relate to small business owners. These recommendations include: Expanding the scope of the Act to include non-depository financial institutions and all types of lending institutions; Change the current definition of assessment areas; Financial institutions be given incentive for investing money and resources into making

capital available to micro=enterprise and small businesses located within LMI communities and other specially designated area Credit Unions and CDFI's should also be held accountable to CRA regulators and guidelines. Improve the service test to include small business lending; Improve data disclosure requirements for small business lending; Financial institutions should be required to provide a CRA plan of action Credit score guidelines should be re-evaluated as many small business owners have been impacted by the current economic condition; CRA credit should be given for lending to credit challenged business owners. Sincerely, Shanaveon E. Pious, PhD Chief Executive Officer Entrepreneurs University