



Testimony of The Association for Enterprise Opportunity  
Before the House Small Business Committee

Hearing Entitled “The State of the Small Business Economy”

February 13, 2013



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The Association for Enterprise Opportunity (AEO) is pleased to take this opportunity to share our views with the Committee in response to the February 13, 2013 hearing, titled “State of the Small Business Economy.” On behalf of the nation’s 25.5 million microbusinesses, which generate receipts totaling \$2.4 trillion (17% of GDP) and employ more than 31 million people, AEO applauds the Committee for its continued engagement with the small business community. We hope this testimony will help guide these and future efforts to assist our nation’s job creators.

### **State of the Small Business Economy: Encouraging Signs, Uncertainty Remains**

According to the recently released Wells Fargo/Gallup Small Business Index, which surveys small businesses on current and future perceptions of their business financial situations on a quarterly basis, small businesses are more optimistic about 2013, with a growing number of respondents signaling that they intend to hire additional employees over the next twelve months.<sup>1</sup> This report was followed by the President’s announcement that six million jobs have been created since the end of the recession in his State of the Union address. That our nation’s small businesses are leading the path comes as no surprise. For the second year in a row, the U.S. Small Business Administration (SBA) set an all-time record by supporting more than \$30 billion in small business loans in FY2012.<sup>2</sup> Demands for SBA Microloans reached their highest level since FY2005. As evidenced by these reports and other indicators such as government-reported data on monthly jobs figures and jobless claims, the economy is strengthening.

And yet, despite this encouraging data, there are few small businesses that do not think that the economy is churning along at a frustratingly slow pace. The constant state of crisis under which our government has been operating since 2011, from debt ceiling debates and tax fights to the succession of continuing resolutions and the shadow cast by the looming threat of sequestration, has created widespread uncertainty among small and large business alike.

### **Failing Our Entrepreneurs: A Matter of National Security**

Over the last twenty years, small businesses have created fully two-thirds of net new jobs – nearly 12 million jobs. Between mid-2009 and 2011, the last year for which accurate data is available, small firms have led the economic recovery, creating 67 percent of net new jobs.<sup>3</sup> And yet, constant uncertainty undermines the entrepreneurial drive to start or grow a business, causing many would-be job creators to conclude that the risks outweigh potential rewards. In our increasingly

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<sup>1</sup> <http://www.gallup.com/poll/160199/small-businesses-cutting-workers-hiring.aspx> (Feb 11, 2013).

<sup>2</sup> SBA FY2012 Agency Financial Report, <http://www.sba.gov/sites/default/files/files/FY%202012%20AFR%2011%2015%202012%20.pdf>

<sup>3</sup> SBA Office of Advocacy, Frequently Asked Questions, <http://www.sba.gov/advocacy/847>, (September, 2012).

globalized and interconnected world, failing to provide our nation's job creators with the tools they need is a matter of national security.

### **Entrepreneurship: A Means To Wealth Generation**

AEO is committed to entrepreneurship because it is a key driver behind wealth creation, especially in underserved communities. According to *The Power of One in Three*, a report released by AEO in 2011, the median net worth of business owners is almost two and a half times greater than for all non-business owners.<sup>4</sup> For an African American male, the difference is nearly eight times higher for business owners compared to non-business owners. For an African American woman, the difference is more than ten times. For a Latino male, the difference is five-fold.

In that same report, AEO found that if just one in three microbusinesses hired a single employee, the U.S. would be at full employment.<sup>5</sup> The benefits of entrepreneurship are evident, and yet, these individuals are especially challenged to access credit due to low household net worth. We consider this to be at the crux of the access to capital challenge: if an individual does not own anything, they have no collateral against which to back a loan. If an individual does not own anything, his/her credit scores will reflect it. That is why, at the end of last year, AEO took a novel approach toward meeting the needs of our nation's entrepreneurs.

### **TILT Forward™**

The private sector, as well as the public sector, can help. AEO launched a private initiative called TILT Forward™, which is an online lending platform designed for entrepreneurs and microbusinesses who have struggled to secure capital from mainstream lending institutions. TILT Forward™ is an innovative underwriting technology platform powered by On Deck Capital, in partnership with AEO, that allows microbusinesses to apply for working capital loans of up to \$150,000 and lower. Loans of this size, as the Committee knows, are typically too small, too risky, and too expensive for mainstream lending institutions using traditional commercial underwriting standards. Once approved, borrowers can then customize their loan package to fit their unique needs.

In addition to applying for loans, approved business owners are also able to access an online portal that pairs them with nonprofit business assistance organizations that provide business counseling services to help them build their businesses. Mainstream financial institutions do not provide this sort of business assistance, mostly because it is too expensive. In effect, the platform has been designed to serve as a virtual "one-stop shop" for entrepreneurs and budding microbusinesses that face significant barriers to entry.

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<sup>4</sup> The Association for Enterprise Opportunity, "The Power of One in Three," [http://aeoworks.org//pdf/one\\_in\\_three.pdf](http://aeoworks.org//pdf/one_in_three.pdf).

<sup>5</sup> Ibid.

TILT Forward™ was launched in St. Louis, Missouri in October 2012, and is operated locally by Justine PETERSEN, a local nonprofit lending and business assistance organization and AEO strategic partner.<sup>6</sup> We are working to scale this pilot nationally.

## **The Government Can Help: Strengthen the Entrepreneurial Ecosystem**

The federal government can be a catalyst for growth. By continuing to provide support to organizations that lend and assist the smallest of businesses, by removing barriers to growth, and simplifying rules and regulations, the government can play a big role in strengthening the entrepreneurial ecosystem.

### Business Assistance and Capacity Building

The U.S. Small Business Administration (SBA) provides support to many of these nonprofit organizations in the form of grants, including through the Program for Investment in Micro-Entrepreneurs (PRIME) and the Microloan Program. AEO found that businesses that receive counseling from one of these organizations have median annual revenue growth 30 percent higher than businesses that did not. They also tend to be more successful: 88 percent are still in business after five years, compared to a 50 percent success rate among businesses that did not.<sup>7</sup> In addition to the programs mentioned above, Women’s Business Centers (SBA), Small Business Development Centers (SBA), the Community Development Financial Institutions Fund (Treasury), the Rural Microentrepreneur Assistance Program (USDA), and the Department of Labor’s Employment & Training Administration provide critical business assistance services to entrepreneurs nationwide.

Much can be done at the state level as well. Assisting local nonprofit organizations bolster their capacity to provide counseling services is a smart, efficient means of getting services to those that need them. Capacity building includes initiatives to allow organizations to build upon successful models by increasing reach, providing online services – such as long-distance learning programs – and targeted outreach. AEO launched the Southeast Initiative to build the capacity of business assistance organizations in a region of the United States with the smallest representation of microbusiness.<sup>8</sup> The Southeast is home to nearly seven million microbusinesses, representing 88 percent of all businesses in that region. AEO is partnering with local organizations to improve their ability to reach more of these individuals in

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<sup>6</sup> The Association for Enterprise Opportunity, Press Release, October 19, 2012, [http://www.aeoworks.org/index.php/site/press\\_single/justine\\_petersen\\_steers\\_st\\_louis\\_entrepreneurs\\_to\\_new\\_online\\_lending\\_tool/](http://www.aeoworks.org/index.php/site/press_single/justine_petersen_steers_st_louis_entrepreneurs_to_new_online_lending_tool/)

<sup>7</sup> FIELD/The Aspen Institute, “Facts About Business Ownership,” <http://fieldus.org/Stories/FastFacts.html>.

<sup>8</sup> The Association for Enterprise Opportunity, Southeast Initiative, [http://www.aeoworks.org/index.php/site/page/category/capacity\\_building\\_in\\_the\\_southeast/](http://www.aeoworks.org/index.php/site/page/category/capacity_building_in_the_southeast/).

their communities despite the significant constraints that make capacity building a challenge.

Despite the importance of these programs to closing the wealth gap, Congress continues to show diminished support for these community-based non-profit organizations by shrinking funding. In testimony before this Committee and other of the U.S. House of Representatives, AEO has shown the effectiveness of many of the programs named above.<sup>9</sup> For example, the PRIME Program delivers big returns on very modest investments. In FY2011, \$8 million was awarded to 92 organizations in 43 states, Puerto Rico and the District of Columbia with an average award of \$87,000. On average, each organization used its grant funding to serve 210 clients, typically providing 15 hours of counseling per client. This works out to \$415 per client, or about \$27 per counseling hour. Not only is this a wise investment in future job creators, but reducing funding – as has been the case over the last few years – or eliminating it altogether – as has also been proposed – would create a barrier for those who need these services the most. We urge the Committee to recommend that adequate funding is made available to these vital business assistance programs.

#### Access to Capital

In 2012, Congress came together to enact the bi-partisan JOBS Act (H.R. 3060), which included a novel means to accessing capital: crowdfunding. By removing disclosure requirements for small firms, small businesses will now be able to raise smaller amounts of capital on the open market. Unfortunately, the Securities & Exchange Commission (SEC), which has been charged with overseeing the development of crowdfunding rules, missed the December 2012 deadline to publish its proposed rulemaking. We urge the SEC to act swiftly to implement the necessary regulations and unlock an innovative means of capital for microbusinesses.

Another proposal to immediately increase capital access for small businesses would be the reduction of small business lending restrictions placed on credit unions. Legislation introduced in the 112<sup>th</sup> Congress (H.R. 1418/S. 2231 – the Small Business Lending Enhancement Act) would have increased the credit union lending cap to 25.7 percent (from the current 12.5 percent), allowing the private sector to fund small business growth – at no cost to taxpayers.

Credit unions are intimately familiar with their communities and have continued to lend in underserved communities, making loans that mainstream financial institutions would not. According to the Credit Union National Association (CUNA), if the lending limits were raised, credit unions could inject an extra \$13 billion into

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<sup>9</sup> Testimony of the Association for Enterprise Opportunity, Before the Subcommittee on Financial Services and General Government, House Appropriations Committee, Hearing on the FY2013 Small Business Administration Budget, March 21, 2013.

the economy, giving small businesses the fuel they need to create 140,000 new jobs within one year of enactment.<sup>10</sup>

### Workforce Development

Starting a business is job creation. Workforce Investment Boards (WIBs), authorized by the Workforce Investment Act of 1998 (WIA), assist job seekers in state unemployment systems. However, an unemployed person who wants to start a business is not eligible to receive training because of assessment and evaluation metrics used by WIBs. The Department of Labor supports amending the regulations, but Congressional action is needed. Legislation introduced in the last Congress (H.R. 5805 – the Entrepreneurial Training Enhancement Act) would have allowed WIBs to amend their assessment metrics allow a Tax Identification Number (TIN) or letters of incorporation as sufficient proof of employment. This is a simple fix at no additional cost to taxpayers. We strongly encourage Members of the Committee to support this issue.

### Healthcare

Healthcare coverage and compliance costs remain a top concern for many small business owners. The complexity and ambiguity surrounding the implementation of the Affordable Care Act (ACA) remain primary concerns for small businesses as we move further into 2013 and the required launch of state healthcare exchanges. Although many small business owners are looking forward to the new marketplace created by the exchanges, nearly three years have passed since it became law and only now are businesses beginning to receive instruction from regulatory agencies on how they must conform to new requirements. With the enrollment period for the healthcare exchanges only eight months away, these promulgated rules are not enough for the small business community to properly prepare for the potential impact.

We are particularly concerned about the timetable for state exchanges. Small businesses need the purchasing power that comes with the strength of numbers—we cannot afford to let the exchanges fail. We implore the Committee to ensure that new healthcare regulations promulgated by the federal government are neither overly burdensome, nor complex. If not done correctly, excessive regulation could result in low enrollment and rob small businesses of the benefits of healthcare exchanges, which are so desperately needed.

### **Conclusion**

AEO is dedicated to helping individuals create wealth through entrepreneurship. At AEO, we like to say that starting a business is job creation. As the *Power of One in Three* shows, entrepreneurship is a means to a job and remains one of the best ways

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<sup>10</sup> The Credit Union National Association, <http://www.cuna.org/issues-advocacy/>.

to financial security and creating wealth. Collaboration between the public and private sectors can play a critical role in creating jobs, both through models such as the TILT Forward™ platform and government programs such as those at the Small Business Administration. Strengthening these services and programs, while exploring ways to increase access to capital to microbusinesses will go a long way in enhancing the entrepreneurial ecosystem for those looking to start, operate, and grow businesses – and unleash *The Power of One in Three*.

We applaud the Committee for its continued leadership, and look forward to assisting Members of the Committee with creating strong policies that support our nation's job creators.

### **About AEO**

AEO is the national member organization and voice of microbusiness in the United States. For more than two decades, AEO and its members – 400 nonprofit lenders and business assistance organizations – have helped more than two million entrepreneurs contribute to job growth and economic growth as they support themselves, their families, and their communities.