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Micro Enterprise Opportunity

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TESTIMONY FOR CRA HEARING AUGUST 18, 2010

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It is especially appropriate that this hearing is being held at the Federal Reserve. It is <u>the</u> regulator that could change the dynamics of job creation through CRA. The Federal Reserve has two primary mandates – to fight inflation and to fight high unemployment rates. The best way to fulfill this second mandate is what I'm about to propose regarding support for small business.

The Fed Reserve and other regulators need to recognize that our society has undergone a seismic shift with its financial institutions that will leave a permanent legacy. The Federal Reserve, OCC, and FDIC need to change the way they look at CRA and reward the type of investments that really create jobs.

Nonprofit, and non-depository CDFIs are now serving the niche of small and micro business loans under $100,000. Their customers include:

a) credit worthy businesses who have lost their bank lines of credit or home equity,
b) struggling Main Street businesses who have lost customers and need Business Development Services, aka Technical Assistance,
c) the unemployed seeking to create their own job by starting a micro business.

Experts contend that 70% of new job creation will come from the very small (micro) business sector. And the Kauffman Foundation just published its report that virtually all new job creation derives from start up businesses and that mature businesses actually shed jobs over time.

What can the regulators do to support this reality and thereby strengthen our local and state economies with new job creation?

1. Treat grants for business development services as Risk Mitigation for lending – an essential component for moving capital to qualified small businesses and for ensuring successful repayment of the loan. <u>Grants for training and business development services should get the same CRA credit as capital investments.</u> Without these essential supports, the capital cannot be deployed effectively.

2. Nonprofit lenders need cheap, patient capital to lend to small businesses in the economically distressed communities they serve. CRA should encourage bank investment in nonprofit lenders serving economically distressed communities by giving a <u>higher CRA value to these investments.</u>

   Not all CRA investments are equal. EQ2s that are very low interest are especially suitable capital products for distressed communities. Right now EQ2s receive the same CRA credit as other

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bank investments that are collateralized and more profitable for the banks to make. EQ2s need to be given a higher value by CRA examiners.

It was CRA that originally allowed banks to make grants and investments in Micro Enterprise development 20 plus years ago. I know, I founded one of the first in California, the Renaissance Entrepreneurship Center in San Francisco in 1987, in partnership with Bank of America. Now these nonprofit programs and lenders are the economic anchors in our communities. I urge the Federal Reserve, OCC and FDIC to recast CRA so that it will serve to increase investment in this infrastructure – the result: new businesses, new jobs, new taxes and more entrepreneurial energy.

Thank you.