NALCAB | NATIONAL ASSOCIATION FOR LATINO COMMUNITY ASSET BUILDERS

April 14, 2017

U.S. Senate Committee on Banking, Housing, and Urban Affairs
534 Dirksen Senate Office Building
Washington, D.C. 20510

Chairman, Senator Mike Crapo (R-ID)

Ranking Member, Senator Sharrod Brown (D-OH)

Re: Fostering Economic Growth

Dear Chairman Crapo and Ranking Member Brown:

On behalf of the members of the NALCAB Network, I am writing in response to the Senate Banking Committee's request for proposals to foster economic growth.

NALCAB – National Association for Latino Community Asset Builders represents and serves a geographically and ethnically diverse group of more than 130 non-profit community development and asset-building organizations that are anchor institutions in our nation's Latino communities. NALCAB's mission is to build assets in Latino families, communities and organizations. NALCAB's work advances economic mobility for low- and moderate-income people.

NALCAB members are experts in implementing responsible, market-based strategies for strengthening underserved communities, rebuilding the ladder of economic mobility for low- and moderate-income Americans and supporting the economic integration of immigrants. NALCAB members are real estate developers, business lenders, economic development corporations, community development credit unions, and consumer counseling agencies, operating in 40 states and DC.

The Banking Committee has shown important leadership in calling for public input in this way and we offer the following proposals as practical approaches to fostering economic growth. We realize that some of these proposals may require action by other Senate Committees. We nevertheless believe it is important to propose comprehensive policy solutions that contextualize the elements that require the Banking Committee's action. We would be pleased to provide even more specific legislative language and other details if any of these proposals are of interest to the Committee.

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1. Unleash Main Street Entrepreneurship

The Opportunity: The small business sector is a key pillar of the US economy and business development is an important path to wealth creation and economic mobility. Businesses in their first five years of existence are credited with being the primary source of net job creation in the United States. For Latinos in particular, small business development and self-employment have an outsized economic importance and an even greater potential. While there has been a great deal of focus on "tech" entrepreneurship, there has not been sufficient focus on main street entrepreneurship – the kinds of businesses that bring vibrancy to rural towns and urban neighborhoods and that create jobs in their communities.

Latino entrepreneurship fundamentally represents an *opportunity* for the US economy. A 2013 US Hispanic Chamber of Commerce study shows the number of Latino start-ups increased 6.66% from 2007-2013; a full 3.5% more than the overall population. Since 2002, the number of Latino firms has doubled to 3.1 million and, in 2013, Latino businesses contributed $468 billion to the economy.[1] According to the Kauffman Foundation's Index of Entrepreneurship, Latinos and immigrants demonstrate higher rates of entrepreneurship than any other major demographic segment.

Based on U.S. Bureau of Labor Statistics data, the number of self-employed in the U.S. dropped in the post-recession economy. Incorporated self-employed fell from 5.78 million in 2008 to 5.13 million in 2011, then climbing back to 5.48 million in 2015, well short of the 2008 level. For Hispanics, entrepreneurship rose in the post-recession period – a dramatic display of resiliency. Self-employment was critical for many Latinos families in weathering the recession.[2]

More than 60 organizations in the NALCAB Network support Mainstreet small businesses through lending and/or providing small business development services. NALCAB conducted a survey of small businesses served by our member network and found that an overwhelming 88% are seeking to grow their businesses in the coming year by hiring employees, expanding their offerings of products and services and/or opening new locations.

Challenge to be addressed: Federal small business policy does not adequately reach Main Street small businesses and aspiring entrepreneurs and does not sufficiently target those populations that demonstrate the highest rates of entrepreneurship.

Specific proposals:

1. <u>Leverage private capital for small business lending through Community Development Financial Institutions</u>. The US Treasury Department has an important role to play in leveraging private investment

[1] Updated projections at http://www.geoscape.com/HBR/pdf/Geoscape_HispanicBusinessOwners_FINAL.pdf

[2] http://www.wsj.com/articles/immigrants-latinos-helped-drive-business-creation-last-year-1432771383

in small businesses through the Community Development Financial Institutions (CDFI) Fund and the State Small Business Credit Initiative. US Treasury-certified CDFI lenders, non-governmental entities, have been particularly effective in utilizing limited federal investments to leverage private capital and then effectively deliver that capital to small businesses that face significant barriers in accessing capital from the banking industry. *The Banking Committee should authorize a specific small business investment program within the CDFI Fund.*

The US Treasury State Small Business Credit Initiative provided flexible funding and authority to States to provide a range of small business lending and credit enhancement mechanisms. This program was highly impactful in many states, but spending lagged in some states that relied on their own government agencies to deploy the funds rather than responsible private lenders such as CDFIs. *The State Small Business Credit Initiative should be continued, however, eligible applicants for funding should include not only states, but innovative partnerships led by responsible non-governmental lenders such as CDFIs.*

2. <u>Eliminate the tax burden on the first $75,000 of earnings for self-employed individuals and small businesses</u>. There is an unfortunate reality that many microbusiness owners, often on the dubious advice of paid tax-preparers, strive to report as little business income as possible in order to reduce their tax burden. This artificially limits their potential of small businesses and self-employed entrepreneurs to access capital for growth because lenders see businesses only breaking even or losing. This is a major barrier to growth for microbusinesses. In the aggregate, this depresses business growth and results in the underestimation of the scale an importance of microbusiness activity in our economy.

   All taxes on the first $75,000 of earnings under the self-employment tax and corporate tax for businesses with gross revenues under $1 million should be eliminated. While the CBO or IRS are best positioned to estimate the impact on revenue, it is highly likely that of this proposal would actually create a net increase in tax revenue over five years due to the simulative effect this would have on access to capital and business growth.

3. <u>Ensure that self-employment is a key element of our nation's workforce investment strategy</u>. The Federal Reserve has placed a strong emphasis on the importance of our nation's workforce investment system to become more response to significant trends in the post-recession economy. With far more 1099 contract work opportunities, an important part of retraining and supporting many American workers to adapt to these changes includes supporting self-employment activities. While the Congress has taken action to ensure that Workforce Investment Act funds can be used to provide services for to support self-employment strategies, the Department of Labor has resisted implementing this option. As a non-legislative solution, *Senators should hold the Department of Labor accountable for responding to changes in the labor market, including by fully implementing the authorization to support self-employment services with Workforce Investment Act dollars.*

The Congress should also continue to provide support for the Small Business Administration's microlending and 7(a) lending programs as well as the PRIME and Women's Business Development Center Programs, both of which have effectively targeted populations that demonstrate the highest level of entrepreneurship.

Impact on Economic Growth and the ability of consumers market participants and financial companies to participate in the economy: NALCAB estimates that, if implemented together, this package of serious small business investment policies will produce 5% growth in the microbusiness sector, which accounts for approximately 17% of GDP. This would more than double GDP growth in a significant sector of the US economy. Just as important, this growth would be targeted to those people that have struggled most to participate in the market after the recession – displaced workers, rural communities, low- and moderate- income people – as well as those segments that demonstrate the highest rates of entrepreneurship, such as Hispanics.

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2. Create Jobs by Investing in Our Nation's Housing Infrastructure

The Opportunity: Housing is a foundational element of our economy. Bipartisan Policy Center reported that from 1980 to 2007, residential fixed investment contributed 4.5 percent to the U.S. Gross Domestic Product.[3] Perhaps more important, we now understand that where a family lives determines much about their economic trajectory and the opportunities their children will have. We now know that stable, affordable housing that provides access to employment, educational institutions and health care resources is critical for building wealth and economic mobility. The John D. and Catherine T. MacArthur Foundation has invested more than $25 million in research to explore, "the notion that stable, quality housing may be an essential platform that promotes positive outcomes in education, employment, and physical and mental health, among other areas." MacArthur's investment is contributing substantially to the growing body of research that is confirming that stable, quality housing – whether rental or homeownership - contributes to school performance, diminishes health problems, and strengthens neighborhoods.[4] A robust housing infrastructure investment has the potential to have far-reaching benefits, not only for the US economy, but also in terms of the long-term benefits that stable, affordable housing has on families and children.

Challenge to be addressed: For low- and moderate-income families that struggled during the Great Recession, the post-Recession housing market in the U.S. presents a variety of challenges related to affordability, access to opportunity (including employment, quality education and health services) and building wealth.

[3] http://bipartisanpolicy.org/library/housings-impact-on-the-economy/

[4] http://www.macfound.org/programs/how-housing-matters/strategy/

The homeownership rate in the US peaked in 2004 at 69% and fell to 64.5% by the end of 2014.[5] The Hispanic homeownership rate reached a record high of 49.8% in 2006 and, according to US Census Bureau estimates, the Hispanic homeownership rate fell to 46.7% in the fourth quarter of 2015.[6] Access to financially responsible homeownership for low- and moderate-income families has been substantially complicated in the post-recession period due to a variety of factors, including: tightened credit standards; wage stagnation; rising student debt; the limited capacity of mainstream credit scoring systems to accurately measure risk in certain subpopulations including immigrants and people at the lower end of the income spectrum; limited consumer education infrastructure; negative impacts of the recession on the financial and credit condition of many consumers; active discrimination in many housing markets.

In the rental market, appreciating values and rising land and housing costs, in both urban and rural areas, are putting pressure on low- and moderate-income renters. In a September 2015 article for the Bipartisan Policy Center, the former CEO of Trammell Crow, Ron Terwilinger, expressed grave concerns about long-term upward pressure on rents.[7] In many markets, increasing real estate prices are resulting in an affordability gap not only for low-income households, but also for moderate-income households. A study from Harvard's Joint Center on Housing Studies documents the significant, post-recession shift into rental market and the resulting price pressures.[8] The National Association of Home Builders/ Wells Fargo Housing Opportunity Index (HOI) measures the percentage of homes sold in more than 220 metro areas that would have been affordable to a family earning the local median income. HOI has dropped precipitously from 77.5% in the first quarter of 2012 to 59.9% in the fourth quarter of 2016, illustrating a growing affordability challenge among moderate-income households.

Specific proposal:

A major housing infrastructure investment should, first and foremost, be responsive to local market conditions and opportunities. A federal program can achieve this by providing flexibility, fewer regulatory barriers and allowing non-governmental developers (for-profit and non-profit) to apply for a competitive pool of funding. The US HUD Neighborhood Stabilization Program Round 2 offers an example of how this can be achieved at scale, however that program did not provide developers with sufficient flexibility to leverage private capital and undertake truly comprehensive neighborhood investment strategies.

The Banking Committee should authorize an infrastructure investment program on the model of the HUD NSP 2 program that has the following key features.

- the primary goal of the program is to develop housing across a range of incomes up to a maximum of 150% of area median income and to leverage private capital as well as underutilized properties owned

[5] Federal Research Bank of St. Louis - Economic Data, research.stlouisfed.org/fred2/series/USHOWN
[6] U.S. Census Bureau. *Residential Vacancies and Homeownership in the Fourth Quarter 2015*. January 2016
[7] http://bipartisanpolicy.org/blog/housing-is-a-growing-source-of-instability/#

[8] http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/jchs_americas_rental_housing_2013_1_0.pdf

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by local government agencies;

- the program should target blight, foreclosed property, underutilized properties and adaptive re-use of government-owned buildings that are being placed back into the private market;
- developers should have the flexibility to invest up to 30% of funds in neighborhood economic development efforts to compliment and support residential development;
- experienced, non-governmental developers should be eligible applicants;
- applicants should be able to explain how residents of the housing to be produced or preserved will have access to jobs, quality education and health care resources, all of which are critical for economic mobility, or said another way, achieving the American Dream;
- maximum flexibility should be deferred to the Secretary of Housing and Urban Development to reduce regulatory burdens on developers;
- a committee of experts in real estate and finance as well as housing advocates should be established to advise the Secretary on what kinds of creative approaches may require special waivers of regulatory burdens.

Impact on Economic Growth and the ability of consumers market participants and financial companies to participate in the economy: Experience with private developers that utilized the HUD NSP 2 program demonstrates that this kind of approach to housing infrastructure will leverage private investment and create good jobs, and not only in the construction industry.

This proposed approach will unleash innovation from private developers (for-profit and non-profit) in ways that are responsive to local market needs and opportunities and which does not lead to the creation of island of poverty. Most importantly, the resulting housing stock will create stable, affordable housing that is connected to the kinds of resources and opportunities that promote real economic mobility, that give low- and moderate income households a real chance to get ahead.

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Thank you for your service to our country.

Respectfully submitted,

Noel Poyo
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