Dear Member of Congress:

The following organizations write to express strong support for the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) and to oppose any effort to weaken or undermine the law.

The 2008 financial crisis caused the worst economy since the Great Depression, decimating the labor market. While all businesses suffered from the crisis, the economic wreckage caused by the financial industry disproportionately hurt small businesses. At the peak of the recession, the job loss rate for businesses with fewer than 50 employees doubled that of businesses with 500 or more employees. And between 2007 and 2012, an astonishing 60% of the total net job losses were in the small business sector. To date, the job creation rate of small businesses lags well behind the pre-recession levels, and small businesses widely struggle to obtain sufficient financing.[1]

That small business owners fared worse during the Great Recession is not surprising. Research shows small firms are far more susceptible to the impact of financial crises than their larger counterparts.[2,3] Largely reliant on bank capital to fund their growth, small business owners feel the credit market swings more acutely.[4] When economic downturns arise, small business owners are less able to utilize alternative financing sources or dip into financial reserves.

That is why our organizations steadfastly support the Dodd-Frank Act. The law was passed in the aftermath of the Great Recession to ensure that such a crisis never again happens. Recognizing that the economic collapse was largely caused by a regulatory void, the bill substantially changed the supervision of banking institutions. It established the Financial Stability Oversight Council to monitor "too-big-to-fail" banks that pose a risk to the US financial system, imposed more stringent regulatory capital requirements on large and small banks, and instituted the Volcker Rule to separate commercial and investment dealings. The Dodd-Frank Act also created the Consumer Financial Protection Bureau (CFPB), an agency responsible for enforcing compliance with consumer financial laws. These measures restored badly needed stability to the financial markets, increased transparency and accountability, and created vital protections for consumers. The result: a financial system that is markedly safer for small business owners.

Beyond the structural reforms, the Dodd-Frank Act also directly benefited business owners through saving money, freeing up capital, and increasing transparency in small business lending. These provisions include:

[1] Karen Mills and Braydon McCarthy, "State of Small Business Lending: Credit Access during the Recovery and How Technology May Change the Game," (July 22, 2014). http://www.hbs.edu/faculty/Publication%20Files/15-004_09b1bf8b-eb2a-4e63-9c4e-0374f770856f.pdf

[2] Duygan-Bump, Burcu, Alexey Levkov and Judit Montoriol-Garriga, "Financial Constraints and Unemployment: Evidence from the Great Recession," Federal Reserve Bank of Boston (December 14, 2011) Working Paper No.QAU10-6.

[3] Mills and Mccarthy (2014).

[4] National Federation of Independent Businesses, "Small Business, Credit Access, and a Lingering Recession," (January 2012).

- The Durbin amendment, which limits fees charged to retailers for small business debit card processing and requires that these transactions are reasonable and proportional to the cost of processing those transactions.
- The establishment of a new complaint system to help consumers, small businesses, and the CFPB spot worrisome practices. Small businesses are beginning to realize there is finally a place for them to go to raise concerns about problematic financial practices and to seek assistance, and they are doing so regarding a variety of concerns that are impacting their ability to grow and to hire.
- Requirements that level the playing field in lending so that small banks, who are more likely to lend to small business owners, can compete with larger banks on equal terms. These include graduated capital and liquidity requirements (higher capital requirements for bigger banks), graduated deposit insurance (bigger banks pay more than small banks), and a $10 billion floor for CFPB examination.
- Section 1071, which directs the CFPB to collect publicly available small business loan data—information that has been difficult to come by, but is essential to increase access to capital for small businesses, particularly female-owned and minority-owned. These data can allow policy makers and the public to see whether small business owners have equal access to much needed loan products, or are relegated to higher cost and potentially harmful products like certain fintech loans and Merchant Cash Advances.

Dodd-Frank opponents often invoke small businesses in their opposition, claiming that its regulatory and enforcement actions have harmed businesses by drying up credit. Small business owners do face significant challenges accessing credit, but we strongly disagree that this problem is caused by the Dodd-Frank Act. Government data show that small-business loans dropped sharply before Dodd-Frank existed. Rather, the evidence strongly suggests that credit dried up because of the financial crisis itself, which could have been averted or at least mitigated had the stabilizing measures contained in Dodd-Frank been in effect before the crisis. To blame Dodd-Frank for the crisis-induced credit crunch confuses cause and effect.

Furthermore, we firmly believe that the protections instituted in the Dodd-Frank Act are the necessary safeguards to enable businesses and entrepreneurs to take the financial risks to start or expand their business. For instance, 63% of small business owners used their personal assets, such as their homes (though these loans are generally not captured by home lending reporting requirements) or personal savings, as collateral to secure financing, and over half used personal savings to finance their business.[5] As such, protecting these "consumer investments" is critical to small business success. Likewise, removing forced arbitration clauses that disempower consumers is beneficial to small businesses, who are subject to the same clauses whenever they open a credit card account or a bank account.

Additionally, when consumers' financial lives are held hostage to predatory payday loans or student loans that lock them in a cycle of debt, businesses suffer. Under the weight of this debt, customer dollars are siphoned away from the local economy, consumer demand for goods and services slackens, and Main Street businesses lose revenue. Strong, local businesses

[5] "2015 Small Business Credit Survey: Report on Employer Firms." Federal Reserve Bank of Atlanta. https://www.frbatlanta.org/-/media/Documents/research/small-business/survey/2015/report-on-employer-firms/2015-report-on-employer-firms.pdf?la=en.

depend upon robust enforcement of the Dodd-Frank Act.

In conclusion, the Dodd-Frank Act has made enormous strides in creating a fairer marketplace in which small businesses, consumers, and local economies can thrive. We urge you to oppose any attempt to weaken this vital law or dismantle the agencies it has created. Please contact Michelle Sternthal at michelle@mainstreetalliance.org or 202-263-4529 with any further questions.

Sincerely,

Main Street Alliance
Accion Chicago
Allied Progress
Asian Pacific Islander Small Business Program
California Association for Micro Enterprise Opportunity
California Reinvestment Coalition
California Resources and Training
Center for Responsible Lending
Empire Justice Center
Franciscan Action Network
Interfaith Center on Corporate Responsibility
National Community Reinvestment Coalition (NCRC)
NAACP
Opportunity Fund
Jefferson Economic Development Institute
Self-Help Credit Union
Women's Economic Ventures
Woodstock Institute