Transcript
FedTalk: The View from Main Street: What Communities Need to Recover from the Pandemic
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Presentation

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Lisa Vidacs:

Welcome to today's FedTalk. We're so pleased that you've chose to join us for today's topic: helping communities recover from the pandemic. FedTalk is the Cleveland Fed's public speaker series in which we share research with our community and ask you to join us for a discussion. All of our past events can be found on Cleveland Fed's website or on our YouTube channel. My name is Lisa Vidacs and I'm the senior vice president over the Federal Reserve System's Fed Communities Group.

The Fed's role in community seems to be a secret even to many in the community development space. Yet the 12 Reserve Banks and the Board of Governors in Washington DC have community development functions and staff devoted to understanding the issues facing low- and moderate-income communities across the country, whether they be rural, urban, and everything in between. Fed Communities seeks to increase awareness of the Fed's work in community development.

Across the Federal Reserve System, there is a trove of resources available on topics such as workforce development, lending and access to credit, economic inclusion, Community Reinvestment Act (CRA), housing, and many others. I hope you will check out the Fed Communities website and follow us on social media for regular updates on the Fed's work in communities.

The issues facing low- and moderate-income communities were challenging before the pandemic. And since then, those challenges have only increased. Today's program will highlight two of the many ways the Federal Reserve monitors and supports these communities. A few brief logistical issues before we begin. All attendees have been muted for today's program. However, we'd love to hear from you. Please use the chat feature at any point throughout the program to share your thoughts and your questions, and we'll devote time at the end of the program to take your questions.

It is now my pleasure to introduce my dear colleague, Alfreda Norman. Alfreda is the senior vice president at the Dallas Fed overseeing communications and public outreach programs, including community development. She is the chair of the leadership group overseeing Fed Communities, and I feel privileged to work with her. Alfreda, over to you.

Alfreda Norman:

Great. Thank you, Lisa, and good afternoon to everybody. I am delighted to host today's FedTalk, highlighting the work of the Federal Reserve System's community development teams. And as Lisa said, each Federal Reserve Bank has a community development function that is actively engaged in communities across America, and they play an integral role in promoting the economic growth and financial stability for low- and moderate-income communities and individuals.

The Reserve Banks' community development experts conduct research on economic issues and structural barriers, they share timely information and resources, and importantly, even in the midst of the pandemic, they've convened thought leaders and collaborated with community partners to address economic challenges and opportunities.

The COVID-19 pandemic has had a disproportionate negative impact on low-income households. And the same is true for the community-based organizations serving these individuals and communities. A national Federal Reserve survey of organizations serving low- to moderate-income communities shows that 17 months into the COVID-19 pandemic, many conditions, from those involving small businesses to services for children, were still worse than they were before the pandemic.

When asked about the peak of distress, 86 percent of respondents indicated COVID-19 was a significant disruption to the economic conditions of the communities they served, and 94 percent said COVID-19 was causing disruptions to financial stability. Today, we want to highlight two excellent examples of how the Federal Reserve System's community development teams can inform and bolster communities' recovery from the effects of the pandemic.

We're going to learn about the Fed Small Business Credit Survey and how a set of data tools can help low-income workers overcome financial barriers. So, let's get started. I'd like to introduce Emily Wavering Corcoran from the Cleveland Fed. And Emily, if you could join. There you are with our video, it's good to see you. Emily is the program manager for the Small Business Credit Survey. Can you take a few minutes to tell us about this survey, Emily?

Emily Wavering Corcoran:

Absolutely. Thank you so much, Alfreda. I'm really pleased to speak with you today about the Fed Small Business Credit Survey. Before I begin, a quick note that the views expressed here are my own and do not necessarily represent the views of either the Federal Reserve Bank of Cleveland or the Federal Reserve System.

The Small Business Credit Survey or SBCS is the Fed's annual national survey of small businesses. It's a collaboration of all 12 regional banks of the Federal Reserve. The SBCS is conducted online and it's distributed through a network of hundreds of local regional and national partner organizations, including chambers of commerce, nonprofits, and small business development centers.

This approach enables us to reach businesses that other surveys, frankly, often miss, including very small firms, startups, and businesses owned by people of color. We can then use the data to amplify stories across various dimensions, including firm size, geography, industry, and the owner's race and ethnicity.

The SBCS is administered every fall and data are then released early the next year. So, the 2021 survey was administered from September through November of 2021 and gathered information from over 17,000 small business owners across the country. Findings from the 2021 survey will be released in just six days, on February 22, in our annual report on employer firms.

When that's available, you can find the report as well as aggregated data on our website, fedsmallbusiness.org. For now, I'll use some of our 2020 data to paint a picture of small business experiences with credit access through the pandemic. Let's go to the next slide, please.

In 2020, the SBCS gathered about 15,000 total responses in September and October, including nearly 10,000 from employer firms and over 4,500 from non-employer firms or those that have no employees other than the business owner. The charts here show data for employer firms, those with at least one paid employee other than the business owner. But I'll note that in general, solo entrepreneurs faced many of the same challenges as their employer counterparts, but often with even less access to support.

Findings for employer firms are described in detail in the 2021 report on employer firms and findings for non-employer firms are described in detail in the 2021 report on non-employer firms. And I believe that links for both of those reports should be showing up in the chat shortly if they haven't already.

We all know that the past two years have been brutal for small business owners. If you are a small business owner yourself, you have felt it firsthand. If you're like me and you don't own a business but you have family members and friends who do, you've likely heard the stories straight from the source. SBCS data let us aggregate those stories. With the onset of the pandemic, the SBCS became a crucial source of insights on the challenges faced by small businesses and their ability to access funding to help them weather interruptions to their operations.

These data are truly a view from Main Street, right? Over 10,000 small business owners with employees entrusted us with their views from their own proverbial Main Street. With the data, we know that 57 percent of small businesses were in poor or fair financial condition toward the end of 2020. And that percentage was higher for Asian, Black, and Hispanic-owned firms as well as for smaller small businesses and those in specific industries.

2020 also saw a sharp increase in the share of firms experiencing financial challenges up from about two-thirds of businesses pre-pandemic to 80 percent of small businesses in 2020. Next slide please.

So, if the first small business story of the pandemic is hardship, the second story is resilience. For those small businesses that have stayed open through the past two years, how have they done it? Adaptation, innovation, and in many cases, additional capital and credit to help them weather unprecedented times. In total, 91 percent of employer firms sought some form of pandemic-related financial assistance in 2020 to cope with the effects of the pandemic.

Most common program was, of course, the Small Business Administration's (SBA) Paycheck Protection Program or PPP as 82 percent of employer firms applied. The SBA's Economic Injury Disaster Loan program or EIDL program was also widely used for loans and grants. But at the same time that small business owners were relying on pandemic-related funding programs, approval rates for traditional financing declined. That's the chart that you'll see on the right.

The underlying reasons for lower approval rates are complex. But at a very high level, this seems to be a combination of stricter lender requirements, reduced lender capacity, and hard-hit business financials. There is plenty more that I could say, but I will pause here for now. Please keep an eye out for our forthcoming report on February 22. And I'm really looking forward to sharing more during our Q and A time. Alex, over to you.

Alex Ruder:

Great, thank you so much, Emily. And it's great to be here, everyone, to talk today. I'd like to begin with two brief comments. Now, a few years ago, Atlanta Fed leadership had a vision. And that vision was to make the financial planning and coaching tools that are available to high-wealth families available to all families, right?

So, that ambitious vision led to what you're going to hear about today, which is the Career Ladder Identifier and Financial Forecaster (CLIFF) suite of tools. It's a direct implementation of a high-level vision from leadership. The second thing I'd like to say is that since the focus of today's hour-long session is on the pandemic recovery, the National Governors Association recently released a framework for recovery, where they talk about using tools like CLIFF for coaching and emphasizing job quality and economic paths to self-sufficiency. I'll encourage everyone to look at that report to see how tools like CLIFF are being used on the ground to support pandemic recovery. Next slide, please.

I want to begin with motivation, right? Why do we develop tools like the Career Ladder Identifier and Financial Forecaster? Now, the fundamental value-add for these tools is it allows workforce development professionals to look at a holistic financial picture. So, before you're advising a family into a new career path, making a costly educational decision, taking time away from work and family to go to training, how will we know that will really pay off?

What we're trying to understand better is situations like you see on your screen right now. This is a quote from one of our partners in Florida, from one of the families they work with. "I feel like I am penalized for working; like they want me to keep using the assistance programs." This is a particular parent, single mother of three who was in a healthcare career pathway. You could see that it says on the screen they're going from CNA to medical assistant. That should pay off. That is a great career move. But this family is losing public assistance and it's actually not paying off, leading to the frustration you see in this quote. Next slide, please.

A second way we very carefully look at this issue is from the family but also from economic and workforce development systems perspective. This is a survey from a state government we work with very closely on this issue, where they surveyed unemployed workers and underemployed workers to get a better sense of this. And they ask them, "Have you ever declined or delayed taking a new job or promotion because you were afraid you might lose a form of government assistance you were receiving?"

Incredibly, to me at least, 37 percent of the survey respondents, it's a professional survey, said they had declined advancement due to this benefits cliff issue. Now, from an economic and workforce development system perspective, that's a big issue because that means you potentially are not filling the jobs that businesses locally need to thrive. Next slide, please.

If I had to summarize, again, the value-add of what these tools bring to the table, it is the following. Benefits cliffs have been around for a long time, they're well understood in the community of practitioners. What has not been well understood is how they interact with workforce development programs and economic development programs.

This all started with what you see on your screen right now is a case study about an actual worker that's trying to move up an in-demand healthcare career pathway, right? So, we were arguably one of the first to really look at career advancement and how benefits cliffs actually remove the incentive to move up a career pathway, which actually undercuts a lot of fundamental principles in workforce development about career advancement. And we have a paper that's referenced on the right side of your screen here that really goes into the research and methodological detail behind this type of approach. Next slide, please.

All this has led to what you see on your screen right now. To start out on the left, two unique contributions we have are what's called the policy rules database, which is a national database of state and local level public assistance and tax rules. That's very comprehensive, very valuable and open for researchers or practitioners that want to use them. More importantly though, that policy rules database powers the CLIFF tools, which we make available to our partners.

These tools are being used around the country right now and we have excellent partnerships with a number of organizations. What's slightly different about these tools are they are not necessarily open access. We usually require memorandums of understanding to use the tools so we can do evaluation and understand their deployment as they're used, but they're being used right now for both public policy analysis with state and local government leaders.

They're being used by workforce development and nonprofit organizations for career and financial coaching. We're just starting now to partner with large employers with formal MOU to use this internally within major employers locally. Relatedly, very recently actually, we've been using these tools and guaranteed income pilots around the country, and that's quickly become one of our most sought-after uses of these tools, guaranteed income pilots, because they're growing around the country right now. We have at least 15 to 20 MOUs with guaranteed income pilots right now. And then finally, research.

So, these tools are supporting a variety of activities, all centered on economic mobility for families, right? How can we understand the barriers? How can we mitigate those barriers so that these programs can ultimately be successful for the families that our partners serve? Thank you very much, and I will hand it back over to Alfreda to moderate the discussion.

Alfreda Norman:

Great. Thank you, Alex. And let's see if Emily's going to come back on camera. By the way, Alex is the community and economic development principal advisor with the Federal Reserve Bank of Atlanta. And we're so glad that you joined the conversation. We're going to have a talk now because there are some good things to learn here and to dig a little bit deeper.

I also want to remind the audience that we're going to have a Q and A after we have this conversation, but feel free to put things in the chat box. We'll be monitoring those and we can include those in the conversation as we're going along so we don't have to necessarily wait to the end. I see Emily's picture, but did we get to see you live and in person, like in video format? Maybe we'll fix that as we get going.

By the way, Emily, I'm going to go back to you for a minute. I wanted to see if you could tell us a little bit, fill us in. Back in 2017, the Fed decided to do this survey. And I'm trying to get a sense of, and you're specifically focusing on credit access. And so, I'm wondering, was there a void of understanding this before the Fed decided to do the survey? What prompted this survey to be started in 2017?

Emily Wavering Corcoran:

Yes. A great question, and I really hope that everyone can see my video at this point. If we can't, I will trust our team to be working on it in the background for me. Yes. So, there absolutely was a void. There was a void in understanding small business access to credit. The data space around small business access to credit is a bit spotty, frankly, right?

There was not good information from small business owners on their experiences accessing credit. We have some information from the lender side, but there was a need for additional information on the borrower side, including information about the misses, right? Where are instances where a small business owner needs capital or is thinking about seeking a line of credit and they don't for some reason. That has economic implications.

And as the Federal reserve, as an entity that's invested in both local economies and the national economy, we want to understand those misses. So, that's really the driving force behind the Small Business Credit Survey. You're absolutely right. It started with some banks identifying this need, this data need, and then bringing all of the Reserve Banks together to address it in a really comprehensive, national way. And that's how we got to where we are today with a national survey that all 12 Reserve Banks participate in.

Alfreda Norman:

Just as a follow up to that. Oftentimes we think about the Fortune 500s and the large employers, but tell us about small businesses. Aren't they the fuel to the economy? I mean, I think we underestimate the size and the impact of small businesses.

Emily Wavering Corcoran:

Yeah. 100 percent. So, I'll just say, just for some clarity, the Small Business Credit Survey defines small businesses as any firm with fewer than 500 employees. That is a lot of firms. That's 99.7 percent of US businesses. So, just in terms of pure numbers, it's a lot. That also represents about half of employment in the US. If we're talking about employer firms, it's almost 50 percent.

So, of course, there's a really critical component there, both at the community level, right? If we're talking about what communities need to move through the pandemic, they need small businesses, and the national economy needs small businesses, too. I think you're right that they can sometimes get lost in broader conversation about overall economic impact, but it should not be lost that they absolutely contribute in major ways, collectively, to national economic growth.

Alfreda Norman:

I also would like to say that this survey actually gets way down to very small, micro enterprise, very small businesses that don't always have a voice. Did I describe that accurately?

Emily Wavering Corcoran:

Yes. Yeah. So, like I mentioned in my presentation, we collect information from non-employers in addition to employers. So, those firms where it's just one entrepreneur doing their thing, working a way, they don't have any other employees, but they're still making contributions in terms of economic activity, they are included in the data, included in the survey.

There are some additional data sources on non-employers, but you're right, there's not much there, certainly not much on the financing side, which is the void that's filled by SBCS. And we do, we want to drill in, in that way, right? Especially, I mentioned some of the firm characteristics that we collect, right? So, race and ethnicity of owner, gender of owner, age of owner, age of firm, we want the full, comprehensive picture of both employers and non-employers so that we can get deep in understanding the very diverse credit needs across the spectrum.

Even within the small business umbrella, there's a ton of diversity there across entrepreneurs, across small business owners. And then that translates into very diverse credit needs.

Alfreda Norman:

Yeah. Oh, good. I've got lots more questions to ask you, but I'm going to turn over to Alex now. And Alex, the one thing I know from this work and from reading all the great work you and your team have been doing is that it is really complicated navigating public assistance programs. It's complicated.

And you've given some examples of what this feels like in real life, because that's, you look at the stats, you understand what it is, but the reality of what happens and the choices families have to make. And I wonder if there's a couple more of those real life examples that you might share on just the perils of this benefits cliff.

Alex Ruder:

For sure. And I'll start out by saying, I think anyone that works in workforce development or in the nonprofit community as many people on this call today do, when you work with families and you work with workers, you see how much they put on the line to get ahead. You see how hard they work and how, in a sense, even the hope that their efforts will improve their standard of living.

I mean, you really get that personal investment that they have that they're going to get ahead. What that means is that you really want them to actually move ahead, right? You want to see them succeed and achieve their goals and not be disappointed, not be set back.

The issues we're talking about today can cause that, the disappointment and setback. And I can give you just a couple examples. One time, a couple of years ago, I actually, one of my first talks I was giving on this. Very high-level discussion afterwards, I had a parent come up to me. I'm not going to mention the occupation that parent worked in. There's no need to single out the occupation, but it was a good job.

That parent told me that they had recently taken a second job to increase their financial resources. This was a single parent, several children, and found out after taking that second job that she lost her children's health insurance.

What happened is, she had to leave that second job and she had to go back to just working under one job, which was by many standards, a pretty good job. Why I want to point out that case is this was not what we typically hear about, right? We typically hear about people turning down opportunities in the first place. I'm just going to stay put because of the benefits cliff.

This was a parent who actually made the investment to move ahead but found out about the benefits cliff after the fact. She experienced it, she experienced that loss, had to go back, re-enroll in that children's health insurance and has that psychological cost of trying to get ahead and realizing it did not pay off. Right.

Alfreda Norman:

Yeah. It seems that the issue is disclosure, right? And you talked a little bit about this. I mean, the fact that people are learning it after the fact. So, I want to get into a little bit about in your work, how is it that low, typically this is obviously lower-income workers who are trying to use the safety net to keep things going for their families.

Whose responsibility is this? It's hard to say to someone, "You need to know all the ins and outs of all the various public assistance programs you have, chart them, and then do the math to figure out what is the correct amount of money that you would need to make in order to balance things." Whose responsibility is it?

I know you mention employers. Is it the individual offices that are giving the assistance? Do we need to have more financial coaches? I mean, how do we solve this notion of just even acknowledging that this exists?

Alex Ruder:

I think it's fair to say responsibility is shared amongst stakeholders, including the families and the workers, right? One principle you do hear frequently now is empowered or decision making autonomy, right? So, you want to make sure the families have the information they need to make that autonomous decision to move ahead, given all the different potential public assistance programs they may lose.

That's very related to a research principle, such as informed consent. Before you enroll in a job training program, you are aware of the risks and the rewards of this decision. So, we want to empower the parents to be agents of their own economic mobility. However, I also think it is a growing need within the financial and workforce development coaching system to be able to talk about these issues.

And this has been recognized again and again from partners that I speak with is that job training and labor market coaching and financial coaching gets you partly there. But as of right now, not as many people are trained to begin to talk about benefits loss and mitigation strategies, right? So, I would argue that both the parents and the workforce development system needs to take responsibility for this issue.

Alfreda Norman:

I would, too, and I'm going to get into that a little bit more in a minute. I'm going to turn to you Emily and ask you, as you were doing this survey, what else have you, I mean, you shared with some of the things that you're learning. But I wonder, specifically because of the pandemic, have you been able to glean things from the survey about the experiences that businesses have run into as a result of the pandemic?

Emily Wavering Corcoran:

Yes, absolutely. And I'll note that we did a pretty major restructuring of the survey instrument for the 2020 round of the survey to better capture small business experiences through the pandemic that included both access to pandemic-related financial assistance programs, but also understanding operational impacts, right?

Temporary closures, supply chain challenges, those sorts of related pressures that are somewhat tangential to credit if you're strictly thinking about credit. But for a small business owner, they absolutely have implications for how they're thinking about their financials, how they're thinking about what resources they need access to.

So, we did a pretty major restructuring. The 2021 survey, I will say, we maintained some of that restructuring so that we could continue to drill into pandemic-related financial assistance. And I'll just say that the data are really rich. So, it's kind of difficult for me to pick a couple of nuggets to help illustrate this, but I'll just flag quickly that I think the connection between personal finances and business finances is one really interesting and important part. Like one story, one nugget that the SBCS highlights, and of course the interconnectedness between personal finances and business finances was very much true pre-pandemic. It only deepened during the pandemic, right?

And in 2020, we saw 62 percent of firms use personal finances to cope with financial challenges. There's a huge connection there that has big implications for household balance sheet. So, pieces like, that's some really unique information to SBCS that helps round out these pictures of small business experiences through the pandemic.

Alfreda Norman:

The PPP was a huge part of that. There were some other programs that you cited, but what could you share in the learnings of the PPP and was it effective, do you think?

Emily Wavering Corcoran:

That's a great question. Perhaps a much longer conversation than we have time for now, and folks have had much longer conversations on it, right? But just, again, a couple of things that I'll pull out from the SBCS data. First is just the importance of existing relationships. In the survey instrument, we asked small business owners about the sources that they went to when they were seeking PPP funding. And we had a follow-up question to understand if they had an existing relationship with the financial institution that they worked through to get PPP or not get PPP, depending on their circumstances.

And it just really, the finding was loud and clear that those pre-existing relationships were critical for PPP access. And unfortunately, we know through other research that firms of color do not necessarily have those same relationships with financial institutions that, say, white firms have, right? There is existing structural disparity there that then plays out in a very real way for policies and programs like PPP.

We also, I'll flag, too, quickly that the type of financial institution mattered a lot for PPP. And we saw some acknowledgement of that between the rounds of PPP, right? Some programmatic changes that were made with, for example, set aside for smaller financial institutions. We found that small business owners who applied for PPP through a small bank were more successful in getting funding.

So, if you're talking about the community level, you're talking about relationships, oftentimes it's small banks that are there for their communities. And that, again, plays out in a very real way when you're talking about that influx of funding and credit.

Alfreda Norman:

Yeah. So much boils down to that was the issue before pandemic, but trying to have these relationships before disaster strikes, right before emergency strike, and that there is a benefit to starting up these relationships. I think that's a good lesson learned.

Alex, I'm wondering, what are some of the ways you're supporting communities on strategies to mitigate the benefits cliff, and just have you seen some best promising practices or some good ideas on how to mitigate the cliff?

Alex Ruder:

We provide support in really several different ways. I mean, most importantly, right now what we do is train people to use our tools with a very comprehensive multi-day online training session so that people are confident to use what can be a new topic for many counselors that they feel comfortable enough with these tools so they're going to be able to use them, right?

So, we do offer training, number one. For communities that want to tackle the benefits cliff, one of the things we do try to do is help facilitate these community conversations across stakeholders, from businesses, to the workforce development organizations, to nonprofits, how can all those individuals work together to actually tackle the benefits cliff, because you do see pretty quickly locally that a combined strategy is going to likely be needed to address this benefits cliff issue. And we try to facilitate those conversations repeatedly.

One best practice I've seen that is very promising is that some of our partners and I think some of our partners in Colorado were the first to do this, is that they've actually mapped out their full intake process for workers within their workforce development coaching center. And they've created flow charts and teaching materials. So, coaches know exactly when to introduce the benefits cliff counseling, they know exactly when to use the tools, and it's integrated into the flow of workers through a comprehensive coaching and financial resources process.

And I think that's the only really strong way to do this is you need to figure out where in our current process does benefits cliff coaching and career coaching make sense. And then let's really develop the process so it's fully integrated into our operational workflow, right? And that's a very organization-specific activity, right? Because every organization has a different process, has a different intake, has a different workflow. We have to work with those partners so they can understand the best way for them to integrate benefits cliff coaching into their organization.

Alfreda Norman:

What is the take of employers being interested in doing that? One of the things I know as perhaps an incentive is that financial stress, worrying about your finances actually affect your productivity. So, as an incentive, are employers engaged in trying to really work and be helpful for their workers to understand this concept of the benefits cliff?

Alex Ruder:

They are, but this is also a big area, I think, for innovation, right? Is how to best work with employers to address this issue. So, is there interest? Yes. And what is their motivation? We've heard several different categories of motivation. One is exactly what you just said. And that is, for example, one of the employers we've been working with recently is met with their employees, started to learn about the financial securities their employees face, and were relatively surprised about that financial insecurity.

They're now trying to develop programs so that they can reduce that financial insecurity. The benefits cliff is part of that, right? The second is the more, perhaps, familiar motivation where we've also worked with an employer that has instituted a raise for certain occupations and they've had workers come up to them expressing concern that they cannot take this raise.

So, how can employers, HR departments, et cetera, get in front of that issue so that they can be informed when they announce that raise and then have community partnerships or other resources available that they can direct those employees to, right?

Alfreda Norman:

Yeah. I would imagine now, with the tight labor market, and it's hard to hire, right? And people have lots of different choices. And there's the Great Resignation. So, do you find that perhaps in this environment that there'll be even more motivation, that you want to keep good employees and maybe it's a good chance to introduce this as being competitive.

Alex Ruder:

I think that's exactly right. Most of the employers that have reached out to us are in sectors with very tight labor market, very high demand for certain workers.

So, once you're started in the business, will the career pathways they offer to those employees pay off, right? The employers really want to understand that process, and then this is where I think the best practices still need to developed is what is that toolbox of resources that the employer can do? What is that set of best practices so that they can really make an impact for their employees in concert with community organizations? And that's actually something we're really committed to working on in 2022.

Alfreda Norman:

Yeah. So Emily, obviously the survey talks credit access. So, let's talk about that. Access to credit. It's a refrain that we hear often, particularly for small businesses. And so, what are some of the solutions? What can we think about? So, right now the Community Reinvestment Act is being looked at to be updated.

So, I'm wondering, is that an avenue in which perhaps there could be more focus on small businesses, particularly when it comes to low- to moderate-income, women-owned businesses, single employers, micro enterprise, very small businesses that are rooted in underserved communities?

Perhaps that's something to think about. Wondering if that is something, or if you have any other ideas on how to really address this at the bottom line, which is not necessarily getting the access to credit that's needed, which is the life blood of a small business.

Emily Wavering Corcoran:

Yes.

Alfreda Norman:

Sorry, that was a long question. Did you get all that?

Emily Wavering Corcoran:

Yeah no, I got it. I'll try to keep my answer focused. But I'll say, access to credit is a three-word phrase that sums up a really complex problem and it needs to have complex solutions, right? So, we've got to think about the spectrum, right? There are policy solutions, right? CRA being the main tool at this point in time. And certainly CRA modernization will hopefully move small business credit access forward. That will be one step.

There are also supply-side solutions and demand-side solutions. So, if we're thinking about lenders and how they approach small businesses, there can be innovation, right? There can be lender-driven solutions to help better assess credit risk, to innovate around products that really meet small business owners where they are, to think about patient capital, to think about just truly addressing the need within safety and soundness that underpin our financial system.

And then on the borrower side, there's a lot of work around technical assistance and understanding to the point, the great point in the chat about moving small business owners, like walking with them, right? To get to the point where they have a relationship with a financial institution. That can be a long road, right? It's not just like, oh, go talk to your banker. Done. There's a lot there to unpack.

And I will point out that there there's some great innovation and support happening in this space, especially by community development financial institutions, CDFIs. They're required in order to be a CDFI, they have to provide technical assistance to small business owners and other borrowers.

So, there are some models there that could potentially be explored, adopted by other financial institutions. But from my perspective, there's no one solution, right? There have to be many solutions from different places to help move credit access forward.

Alfreda Norman:

Yeah. One of the comments that we have a question from the chat was that our economy is going to be morphing and changing as we look forward. And there's likely an increased cost to borrowing. And I'm wondering if perhaps that's something that you're considering or maybe that's something that you might include in future surveys? I mean, is this going to be an issue?

Emily Wavering Corcoran:

I will say that we already have some data on that. We capture that in the survey data and have for the life of the survey, we ask about satisfaction with lenders and challenges with lenders. One of the challenges includes high interest rates, right? The cost of credit. Just to tease our report that's coming out on the 22, that report will have breakdowns by lender on what challenges borrowers are experiencing.

So, there's information there. I can't say too much right now, but come the 22, that information from the 2021 survey will be out in the world. And we do have historical information on it. Right? So, it's something that we continue to monitor over time because it absolutely has implications for, of course, both lenders and borrowers.

Alfreda Norman:

Yeah. I'm going to get back to that point in just a second. But I'm going to switch over to Alex to ask you. You had mentioned the guaranteed income. Talk to us a little bit about what that is and that trend and what's happening.

Alex Ruder:

Yeah. The trend really came to our attention because of our partnership with the Richmond Fed. And in summary, certainly after the pandemic, there's been a lot of, of course, focus on just the financial and security that families face, right? And one proposed solution that's become very common is what's called guaranteed income.

So, unconditional cash offered to families. So, that means there's none of the typical requirements that are part of the safety net such as a work requirement, such as an income threshold above which you would lose the benefit. So, for example, many of our partners are offering roughly $500 as that guaranteed income amount. Right? And then you can keep that roughly for a one- to two-year period.

Now, where our contribution to these guaranteed income costs and why so many organizations are reaching out to us about them is because the issue is that guaranteed income can actually trigger a benefits cliff, right? So, you're solving one solution by giving families unconditional cash, but at the same time, if that unconditional cash causes you to lose food assistance or a childcare subsidy, you may be actually not achieving the goals of the guaranteed income program. Right?

So, these programs are being run by nonprofits, cities. Some of them are small, like 30 to 50 people. Some have roughly 5,000 people. It happens that our tools are actually able to let both families and policymakers that are creating these programs know exactly what the implications are for a family's public assistance if they enroll in the guaranteed income program.

Alfreda Norman:

Just curious, when a family gets a lump sum from an earned income tax credit, does that affect their ability to get benefits?

Alex Ruder:

The Earned Income Tax Credit, fortunately does not have any implications for families' public assistance. And that's why you do see as a popular solution to the benefits cliffs are activities such as extensions of state earned income tax credits, right?

Guaranteed income though, however, does not have that flexibility. It is a cash gift. There's different solutions that can mitigate the impact on the social safety net. But in general, it is a risk that families could lose programs around.

Alfreda Norman:

Yeah. Maybe there's some lessons learned about that Earned Income Tax Credit and how they set that up. I want to remind the audience to go ahead and submit your questions because we are headed into that time where we're going to open it up and welcome questions. And thank you for those of you that are sending some notes in.

One of the things I want to address from our audience question is this question of equity. So Emily, there's a lot that you've learned through your survey from your social demographics and you can see and we all know in the country that there's a gap when it comes to people of color, there's a wealth gap, it's shown in your data, the lagging behind, unfortunately, of many small businesses, because perhaps they don't have the access to credit.

And so, you're showing this through your survey. I'm wondering if there's ways in which, or is this information helping to fuel the conversation to address what can be done, whether it be, as one of our audience members says, "Helping Black businesses understand how to approach a lender, how to develop relationships?" When will there be policy, not even necessarily the policy, but what could be the answer?

And I know that's a rhetorical question to ask you this, but I'm hoping that your survey findings are maybe spurring this conversation about, this is a persistent issue. This is a persistent thing that we hear over and over and over again. So what, if anything, will be done or change?

So, I'm going to throw that to you. That's I guess, in the policy realm, but programmatic or even the conversation with fintech or others that are not in this space and maybe are coming to have an important role to play. So, what's your thinking?

Emily Wavering Corcoran:

Yeah. So, I'll say from the data side of things, we collect the information, right? We provide the structural overview, exactly to your point, right? So that we can inform these conversations, we can provide the numbers that show persistent disparities. I hope over the long term we show the closing of those divides, right? And I'll point to Federal Reserve resources that are not directly related to SBCS but they have been informed by SBCS in various ways that really contribute to the conversation that you're talking about.

One is some materials put together by the Kansas City Fed, they have some great information on entrepreneurial ecosystem building, particularly with an equity lens. So, these resources, I can find them and drop them in the chat. They help local leaders think about, even beyond access to credit, think about the supports that are available to small business owners, particularly small business owners of color, and how to make sure that there are specific supports in place, how there are mentorship programs in place, how there are additional people there to help with coaching and guidance, professional advice that help contribute to credit access. And beyond that, just a thriving business ecosystem.

So, the Kansas City Fed tools, their resources are one item that I would point to. And then I would also flag for folks, the Racism and the Economy series that was put on by the Federal Reserve System last year. There's a session on entrepreneurship. And really, there are some great policy proposals, some great thinking there about what can change, what should change, what will really move the needle in this space, right?

And from our perspective, the data is critical to help inform this conversation. And that's where some of the Fed's convening power comes into, right? We can bring actors to the table, whether it's at the local level, bringing together lenders and local policymakers, whether it's at the federal level and provide the information, provide the data to help further these conversations.

Alfreda Norman:

Yeah. And I think I'm going to think about the future going forward. I'm going to ask you some questions to think about. I want to respond to some of the things that are in the chat. And Alex, one thing that someone noticed is that due to the public health emergency, the Medicaid benefits cliff has been temporarily suspended for people that would have otherwise been off of the benefit. And it's due to be removed June 30. This could be a massive cliff that happens to multiple people at the same time. Has there been any conversation about preparing for this cliff?

Alex Ruder:

That's a great question. Frankly, I haven't heard as much discussion about this issue with Medicaid, even though Medicaid is such a fundamental benefits cliff for families. So, I think this is something we have to look into much more closely in the next couple of months here about what this impact would be. We can certainly assure though that if there's any impact of this change for the CLIFF tools and how they present the benefits cliffs for families, that will be incorporated on time.

Alfreda Norman:

Yeah, I'm sure there's more to come. Let's think about the future. And I wonder if maybe you guys could share what you're thinking about your work as you're looking forward, as we're thinking, as we're working to have this inclusive and equitable recovery from the pandemic, particularly for underserved and low-income workers.

What are you thinking about, or how are you adjusting, Emily? Let's start with you. What might you be thinking about as you're thinking about your work going forward? Yeah. So, I'll leave it at that. I want to hear what's on your mind.

And by the way, Emily, Emily works with all of the Reserve Banks. And there are individuals in the Reserve Banks that each work on this with you as a partner and have partners in the community, right? Through the relationships that get people to respond to these surveys, which is really important. So, I know there's a lot of thinking about this, but what do you have teed up to do going forward?

Emily Wavering Corcoran:

Yeah. So, I will say, the 2022 survey will launch in September of this year. We start thinking about survey design in May/June, so as we're putting together the findings, we're already thinking about data collection coming up. Our team at this point is really focused on a couple of things. Importantly, continuing to over-sample underrepresented businesses.

So, forming both internal and external partnerships that help us reach, particularly, firms owned by Native American individuals, firms owned by Black folks, Hispanic folks. We translate the survey into Spanish, like really thinking about how we meet people where they are.

I did want to touch on just a comment raised in the chat, because I think this is a really important feature of this survey and I would love to just have a follow up conversation about it, potentially. Even though Black business owners may not apply at the same rate, the survey data capture that through our partners. That's a really unique feature of our data is that we capture discouraged small business owners, right? Who need the funding but choose not to apply.

We don't do it perfectly, by any means. We're always looking to be more representative, to reach individuals more comprehensively, but we do capture the people who don't actually make it to the bank. Right? And so, it's imperfect, but it is there. And I'll just say too that we're also really focused on geographic representation. So, focusing on how the data, even though it's a national survey, how the data can really drill down, particularly at this point to the metropolitan statistical area (MSA) to help inform local policymaking and just help communities as they work to understand the state of small business credit access in their neighborhoods.

Alfreda Norman:

Right. Thank you, Emily. I think that's powerful and so important. Gosh, our time is fleeing. So Alex, I'm going to ask you the same thing. Tell us about looking ahead of the future, what plans do you have? How will you iterate or what are your goals and hopes for the next, at least, one to two years?

Alex Ruder:

I already mentioned one of them. I really think there's a lot of innovation in two areas that we want to contribute to. Number one is a business toolkit. So, if you or any of our partners work with businesses that want to address the benefits cliff, well, how can you have a constructive conversation with that business so they know what to do to address this issue, rather than just wondering, well, what can we do? Well, you can tell them, "Here are some best practices."

Number two is to continue to think about how to integrate in this benefits cliff financial coaching into normal workforce development coaching, right? That's a need that's come up again and again. It's very difficult. These nonprofits often have limited capacity, they're doing all they can, they don't have a lot of time and this is a new task. How can we support them is where we're looking into the future.

And then I just want to say, going the next year or two, we want to continue to strengthen our relationships with our partner Federal Reserve Banks, certainly Richmond, Kansas City, growing in Cleveland, Chicago, San Francisco, and making sure that organizations around the country can have these tools and use them effectively.

Alfreda Norman:

Yeah. Again, very powerful. Lots of work to do. I want to thank you, Emily and Alex, for highlighting your work. It's amazing, it's important and it's an important part of this inclusive, equitable recovery that we're all seeking for these communities. And your colleagues across the System are working on lots of other issues as well: the digital divide, early childhood education, affordable housing, social determinants of health, workforce development.

And so, the good news is that you can stay up on all of these issues by subscribing to fedcommunities.org. They're keeping their pulse on what's happening in the Federal Reserve System around this work and ways that you might be able to engage and get your community engaged.

So, I want to just thank everybody today for taking the time out to join us. All the information referenced in the program will be shared in a follow-up email and a recording of this program will be available on clevelandfed.org. So, thanks for tuning in, everybody, and have a good day.