

**June 11, 2020**

**To:**

**From: David Crow, Laurie-Ann Flanagan, David Beaudreau**

**Re: Senate Small Business and Entrepreneurship Committee Hearing: "Perspectives from Main Street: COVID-19’s Impact on Small Business."**

On Tuesday June 3, the Senate Small Business and Entrepreneurship Committee had a hearing on “COVID-19s Impact on Small Business”

**Representatives Attending**

Chairman Marco Rubio (R-FL)

Ranking Member Ben Cardin (D-MD)

Senator Tim Scott (R-SC)

Senator Todd Young (R-IN)

Senator Maria Cantwell (D-WA)

Senator Joni Ernst (R-IA)

Senator Jeanne Shaheen (D-NH)

Senator Tammy Duckworth (D-IL)

Senator Mazie Hirono (D-HI)

Senator Jacky Rosen (D-NV)

Senator Cory Booker (D-NJ)

Senator James Inhofe (R-OK)

**Opening Statements**

Chairman Rubio opened this hearing by speakingto the widespread economic and medical fallout caused by the pandemic. Mentioning the spike to 40% unemployment –up from just 3.5% in January– and the net decrease in the GDP, Senator Rubio discussed how small businesses have been among the hardest hit. Employing 47% of all workers, half of which are now considered highly vulnerable, small businesses were found by the Census Bureau to experience very negative effects across nearly all industries. Senator Rubio pointed out that, although negative economic statistics regarding small businesses have declined in the past four weeks in part due to the Paycheck Protection Program (PPP), he conceded that there is much that still needs to be done in light of the duration of the pandemic which has extended past the eight-week projected timeline under which the PPP was crafted.

Ranking Member Cardin followed the Chairman’s statement by affirming the dual necessity and vulnerability of the 30 million small businesses in America. He described the rushed process out of which the PPP was passed, congratulating the committee for the success it saw under such circumstances, and urging for similarly swift action to be taken to continue to help small businesses as the eight-week period is set to expire shortly. He touched on other programs that are aimed at serving small businesses such as the Economic Injury Disaster Loan (EIDL) and Emergency Grants for small businesses who urgently need liquidity. Senator Cardin goes on to highlight some of the pitfalls of the initial PPP rollout, namely the lack of transparency and data from the Secretary of the Treasury about how the programs were working as well as the lack of communication with the businesses set to receive loans and grants.

**Witnesses**

* **Mr. Joe Shamess**, Co-Founder, Flags of Valor
  + Shamess began his statement by explaining the unique position of Flags of Valor as a veteran founded, owned, and operated business that serves as both a retailer and a manufacturer of goods. He described his perception of the PPP, noting that by mid-March, two-thirds of his company’s revenue was gone. Although the PPP helped serve as a lifeline, Shamess noted that government support alone will not sustain small businesses like his during the pandemic. He asserted that business owners must be innovators and not become reliant on the government’s support to stay afloat, offering an example of a DIY flag-making kit that Flags of Valor began producing in lieu of their ability to make facemasks. Shamess concluded his opening statement by saying that certainty of program execution and liability protection are the two things he would prioritize in future programs targeting small businesses.
* **Ms. Connie Evans,** President and CEO, Association for Enterprise Opportunity (AEO)
  + Evans provided some background about AEO as a nationwide microfinance developer as well as her involvement in the Women’s Self Employment Project for female, urban entrepreneurs to segue into her petition for heightened support for the smallest small businesses. She pointed out that while the CARES Act deployed $500 B to small businesses, a second round of PPP needs to focus on the most vulnerable of those small businesses, targeting those with ten or fewer employees. Furthermore, she recommended that the House increase funding for small businesses and specifically increase the Community Development Financial Institutions (CDFI) fund to $1 B. Asking that CDFIs automatically become creditable in order to strengthen the next iteration of the PPP and bringing attention to the Page 30 Coalition formed from businesses listed in the CARES Act, Evans imparted small businesses’ desire to hold Congress accountable for underserved businesses. Lastly, she voiced her support for the Cardin-Booker recovery white paper and urges the use of Congressional Review to remove OCC proposed reforms that would hurt small businesses.
* **Dr. Michael Strain**, Director of Economic Policy Studies, American Enterprise Institute
  + Dr. Strain began by introducing concerning financial statistics not yet brought forth including the reduction of the GDP by $80 B/week, 22.5% of workers being under- or unemployed, and figures indicating that small businesses will be unable to sustain prolonged shut down, namely that half of small businesses have less than a month of buffer liquidity. Although the situation is improving, as evidenced by two-thirds of small businesses receiving support from the PPP serving to mitigate implosion, many issues with the program’s implementation require resolution. Strain criticizes the implementation of the “75% rule” which states that 75% of PPP loans go toward payroll costs, arguing that businesses that cannot cover operational costs cannot pay their employees either. Additionally, Strain argued that the Treasury is not taking enough risk with capital, discouraging borrowers from participating in the provided lending programs due to concerns about their ability to pay off said loans.
* **Mr. Nick Rudolph,** Baltimore Regional Director, Maryland Capital Enterprises
  + Rudolph opened his statement by offering suggestions about how future aid packages can help small businesses to survive, citing the necessity of emergency loans, funding to retrofit stores for virus mitigation, subsidies for employer and employee healthcare, as well as the need for more flexible requirements for application to the PPP. Rudolph signaled the danger of lowering housing values, pointing to how this will hurt small business owners, many of which are already in poor credit standing due to the volume of loans being taken to sustain through pandemic-induced closures and how the lack of existing borrowing-relationships with banks exacerbates the struggle to acquire liquidity. Echoing affirmation for allocations towards technical training and services for CDFIs as suggested by Ms. Evans, Mr. Rudolph concluded his statement admitting that supporting small businesses is going to be expensive, but that the alternative loss of small businesses will be far more detrimental.

**Questions**

Senator Cardin began by asking Ms. Evans why targeting smaller small businesses is a more effective way to serve the underserved businesses. Ms. Evans pointed out that companies with fewer than ten employees are hit the hardest, that minority and women-owned businesses compose 90% of this demographic and are therefore even more in need of targeted support. Senator Cardin asked Mr. Rudolph about how the inaccessibility of the EIDL program as well as the $1,000/employee constraint have impacted his ability to utilize the support funds. Rudolph explained how the ambiguity of the programs in tandem with the seemingly arbitrary rates of use, as well as the lack of communication throughout the grant and loan application processes have made business owners apprehensive to utilize these programs, taking on external loans before hearing about the status of their EIDL and PPP funding.

Senator Young asked Dr. Strain to elaborate on the importance of expanding the PPP program, specifically with regard to his stated need for flexibility, and how loan forgiveness should be calculated. Strain stated that in light of the coming expiration of the PPP as well as the still-dire state of most small businesses, the program clearly needs to be extended. He further commended the suggested means of extension and forgiveness calculations centered on revenue lost presented in Senator Young’s “Restart Proposal” to extend PPP.

Senator Cantwell proposed a 60%-40% split instead of the 75% rule imposed by the Treasury to Rudolph and Strain who agree that, in general, autonomy represents the optimal level of flexibility, and that legislators need to be realistic in realizing that payrolls are shrinking despite existing programs.

Senator Ernst asked Dr. Strain how delays in Main Street loan deployments impact small businesses. Strain responded that the operating period needs to be measured in weeks, not months, and that lenders are currently incentivized to follow normal lending standards which the impacted demographics of businesses utilizing these programs likely cannot meet. Mr. Shamess concurred, stating that the inaccessibility to loans through the EIDL program as well as the Main Street program are further reasons that business owners need to remain vigilant when possible in their own innovation to adapt to the economic climate.

Senator Shaheen also asked Ms. Evans about the efficacy of targeting smaller small businesses, highlighting the damage done to industries composed of larger small businesses like tourism, restaurants, hospitality, and entertainment. Ms. Evans stated that a balance must be achieved, pointing out that black-owned businesses compose 40% of the hardest hit industries. She affirms that it is possible to target the hardest hit industries while still supporting the underserved.

Senator Duckworth asked Ms. Evans how critical it is to expand microloan programs and repeal the 1/55th rule (which prevents the SBA from distributing more than 1/55th of its funding in any given state during the first half of a year). Ms. Evans agreed that the rule is outdated, and signals appreciation for the increased funding for technical training assistance mentioned in the Small Business Lending Continuity Act Duckworth sponsored which far outpaces existing legislative support for minority and women owned businesses. Senator Duckworth then asked Mr. Rudolph how a $10 B extension of the PPP as well as streamlining the loan application process for small dollar borrowers will help. Rudolph stated that this extension and the flexibility to seek small dollar loans particularly helps businesses with pencil and paper or spreadsheet books. Additionally, he suggested that extending availability of EIDL loans for 3-5 years after the pandemic due to limited capital and credit may be needed for the survival of small businesses.

Senator Hirono asked what kind of challenges underserved communities face and how the SBA legislation can help. Ms. Evans identified 1) use of the banking system as the means of distributing these loans since the underserved and smallest small businesses did not have the requisite borrowing relationships, 2) use of a first-come-first-served process for PPP lending which locks out the these demographics as well, and 3) small businesses did not have necessary info nor a trusted entity to turn to when navigating the application process. As a solution, Evans urged for targeting the smallest businesses who are most-harmed by these obstacles as well as focusing on CDFIs going forward. Still inquiring of Ms. Evans, Senator Hirono asked if the SBA has done enough to guarantee that CDFIs can get small business loans. Ms. Evans responded that there is still more to be done, harkening back to the $1 B allocation she mentioned in her opening statement, as well as the need for lending and technical assistance for low income communities. Continuing their dialogue and driving the issue home, Senator Hirono asked if money needs to be set aside for technical assistance to which Ms. Evans responds “yes, desperately.” Concluding her line of questioning, Senator Hirono asked if there should be a body or person to help these businesses navigate the program put in place which Ms. Evans also agrees is essential, especially for emerging businesses.

Highlighting constraints within some of the programs like the minimum of $1,000/employee and the maximum amount of $150,000/business, Senator Rosen asked how the SBA can support employees and employers. Dr. Strain answered that flexibility needs to be part of the adapted solutions following the first iteration PPP and that Congress needs to remain cognizant of the struggles that small businesses will continue to face through July. Mr. Rudolph also answered, stating that building trust with the businesses is crucial for long term resurgence, highlighting confusion about EIDL being a $10,000 grant that was in fact not a grant at all, but a loan decorated in red tape.

Senator Booker asked Dr. Strain if the Relief for Main Street Act looked like a form of flexibility. Strain identified sources of inflexibility as skittish banks and the lack of initiative on part of the Treasury when implementing PPP to ensure the feeling of protection for banks to lend to vulnerable or otherwise risky businesses. Along with commending the Relief for Main Street Act, Dr. Strain urged that the apprehensions harbored by lending institutions be addressed in future iterations of the PPP. In light of the disparate challenges minority entrepreneurs and small business owners face, Senator Booker asked Ms. Evans what the SBA can do to support them. Ms. Evans lent her support for Booker’s legislation in partnership with Senator Daines as well as the aforementioned Cardin-Booker White Paper which includes provisions to help minority businesses emerging during the pandemic.

Senator Inhofe asked how effective the SBA loans were in keeping employees on payroll. Mr. Shamess stated that all monetary assistance provided has been appreciated, especially since many small businesses were positioned to think that they would be alone in resolving the issue. While the assistance will provide durability, Shamess noted that small business owners must be disciplined moving forward. Inhofe asks what steps can be taken within a small business to develop this discipline. Shamess offered Flags of Valor’s anecdotal experience in coping with the pandemic, stating that sacrifices were made early on, and reminding his peers that burdens are to be divided, and rewards multiplied.

Senator Rubio did not have time to ask his questions, but thanked all the committee members and panelists, reminding the audience that the hearing record will remain open for 15 days after the date of the hearing.