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PERSPECTIVES FROM MAIN STREET: COVID–19's IMPACT ON SMALL BUSINESS

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP UNITED STATES SENATE

ONE HUNDRED SIXTEENTH CONGRESS

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ONE HUNDRED SIXTEENTH CONGRESS

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PERSPECTIVES FROM MAIN STREET: COVID–19's IMPACT ON SMALL BUSINESS

WEDNESDAY, JUNE 3, 2020

UNITED STATES SENATE,
COMMITTEE ON SMALL BUSINESS
AND ENTREPRENEURSHIP,
Washington, DC.

The Committee met, pursuant to notice, at 10:04 a.m., in Room SR–301, Russell Senate Office Building, Hon. Marco Rubio, Chairman of the Committee, presiding

Present: Senators Rubio, Scott, Ernst, Inhofe, Young, Romney, Cardin, Cantwell, Shaheen, Booker, Hirono, Duckworth, and Rosen.

OPENING STATEMENT OF HON. MARCO RUBIO, CHAIRMAN, A U.S. SENATOR FROM FLORIDA

Chairman RUBIO. Today's hearing on the Senate Committee on Small Business and Entrepreneurship will come to order under different circumstances. We are really far from one another, and you guys are here online, and we have never been in this room before. But I appreciate everyone joining us, those that are in person, of course, those that are here attending virtually, which I think is something we are going to get used to for some period of time. We welcome our witnesses as well. The title of the hearing is "Perspectives from Main Street: COVID–19's Impact on Small Business."

There is no doubt that this pandemic has impacted our lives in every day imaginable. For some, the impact has been tragically on their health or the health of a loved one. I personally know multiple families, including someone who was my physician for a period of time who recently passed away as a result of this.

For others, it has affected their day-to-day way of life. There is virtually no impact of our day-to-day life that has not been altered by it, and of course, for some, that means they have lost their jobs or they have lost their businesses.

The economic fallout from this pandemic has had an unprecedented historic impact on millions of Americans. By April of this year, the unemployment rate had increased 14.7 percent. Only 2 months before that in February, the unemployment rate was only 3.5 percent.

In the first quarter of this year, the United States saw a 5 percent decrease, decrease in the annual real GDP rate, compared to the fourth quarter of 2019 which reported a 2.1 percent increase. And our Nation's small businesses have, without a doubt, been among the hardest hit. I would argue the hardest hit from an economic perspective by this pandemic.

The Small Business Administration estimates that in 2019 nearly 30 million small firms were operating in the United States, and they employed about 47 percent of all the workers in our country, which amounts to about 60 million Americans.

Now after this pandemic, it is estimated that 54 percent, so over half of those small business jobs, are considered what you would call highly vulnerable, and I think that is especially true in industries like hotels and accommodation, the food service industry. As I have said, I believe that those industries, unfortunately, will be the first ones into the crisis and the hardest ones to get out of it.

There was a recent SNAP survey by the Census Bureau, and it reported in data that they collected between April 26th and the 2nd of May that 83.5 percent—83.5 percent of small businesses that were surveyed within this industry of accommodations and food service, they reported that they had experienced a very large negative effect due to the pandemic. Of course, I do not think any of us from an anecdotal and real-life perspective needed the Census Bureau to do that in order for us to know that.

But I think this is true in multiple sectors across our economy. That same survey suggests that, throughout the month of May, the number of firms reporting large negative impact had decreased from more than 51 percent of firms to 45 percent of firms.

Similarly, the number of small businesses having reported decreased revenue or decrease in employees has also gone down in the last 4 weeks, and as these statistics have decreased, the number of firms having reported that they received financial assistance in the form of either a Paycheck Protection loan or an Economic Injury Disaster Loan, a grant, have begun to increase substantially.

So according to the most recent data provided by the Small Business Administration, whose Administrator along with the Secretary, I hope, of the Treasury will be here next week before this Committee—according to their data, there are more than 4.4 million PPP loans that have been made for a total of over $510 billion. The average loan size is now about $114,000. So I think when we look at those numbers, particularly the average loan of $114,000, I think that is what those of us who crafted this program had envisioned what the program would look like when all was said and done.

There are also more than $700,000 Emergency Injury Disaster Loans that have been made for $55 billion, although that program, of course, has had its own set of complications, as has been well documented.

While the process of establishing and administering the PPP program was not without faults, as would be expected from a program that is brand new and of this size and scope, crafted over 6 days and implemented with the rules and so forth over 6 days, that we have to remember that on April 3rd of this year was the first time ever that anyone in the world had ever applied for a PPP loan, processed a PPP loan, or approved one. So despite all of that, the program has had immense and positive impact on the small business community.

The program was created to provide these small businesses and their employees with emergency funding so they could sustain their business, particularly their payroll, during the uncertainty of this time. It was designed to allow them to keep their workers on payroll and to make it possible for firms to once again be able to operate after the crisis had passed.

So following the passage of the CARES Act, demand for the program was unbelievably high. I think it exceeded everyone's expectations. It was so high that the first round of funding, we reached the guarantee cap in less than 2 weeks, and it required Congress to come back and appropriate another $310 billion.

Millions of additional small businesses in addition to independent contractors and sole proprietors were able to participate due to this additional funding.

There was a recent survey by the National Federation of Independent Business that had noted that 77 percent of surveyed small business owners had applied for a PPP loan, of which 93 percent had received their funding.

Just speaking from my home State of Florida, we have approximately 336,000 PPP loans for more than $30 billion. Each one of those loans represents a business surviving and a worker receiving a paycheck during this incredibly trying time. It is a lifeline to American business who has suffered through no fault of their own, and these statistics are, of course, encouraging. But we recognize that small firms and communities throughout our Nation are still struggling.

Just last week, the Small Business Administration and the Treasury Department announced that they would be increasing their efforts to ensure that the PPP program is successful and reaching small businesses in all of our Nation's communities by agreeing to set aside an additional $10 billion of PPP funds for community development financial institutions, or CDFIs for short. This effort to improve CDFI's ability to administer PPP loans and to set aside funding for their use is meant to, hopefully, ensure that underserved communities can better access the benefits of the program.

This is work of tremendous importance. The Ranking Member and many others were very involved in making this possible, and I also thank the SBA and the Treasury for moving on this after hearing all these requests.

I want to close by saying I think it is impossible to gather here today on any topic and not acknowledge what we have seen take place across the country, including in my home town of Miami and my home State of Florida, but right here where we work in Washington, D.C., as well as in New York City and Minneapolis, California, all across the country.

I do not think anyone can dispute that the murder of Mr. Floyd was an outrage and a crime and that there must be justice and accountability for it.

I do think, however, that for far too long in this Nation, we have ignored the fact that a significant percentage of the American family feels like their lives are not valued to the same extent and their problems are ignored because of the color of their skin. No nation can be successful when a substantial percentage of your population feels that they are treated unfairly as a matter of course.

The anger and the frustration that we see is, I believe, not simply isolated to one very tragic instance of a murder, but it goes beyond it. And it is more than just the other incidents that we have seen pile up over the years.

I think it also includes issues like the already disproportionate harm to communities of color, which have come about as a result of this pandemic and of other economic situations that have emerged that have led to what when you look at the numbers are clearly disparities and inequities in our society that fall along racial and ethnic lines.

So in the context of the jurisdiction of this Committee, ensuring that the worker focused economic relief of the PPP makes it to small business in these communities was a priority before the last few days and I think takes on heightened importance now.

The work of this Committee has its own part to play in helping address the economic disparities facing Americans of color during this crisis and beyond.

So I want to thank the Ranking Member for his longstanding and continued leadership in advocating for underserved communities and for his partnership on this front. I look forward to continuing that partnership. I think it takes on added urgency because this cannot be another one of those instances in which we turn the page and move forward without addressing the lingering cancer that hangs over us of racial inequality in our country, which includes, obviously, how minority communities feel they are treated by authorities but is not just limited to that.

Today's hearing will allow members of the Committee the opportunity to explore what the small business landscape currently looks like in various industries and in various communities, and while this is our first formal Committee hearing following the passage of the CARES Act, it will certainly not be our last.

I assure everyone that while I have taken on a second job for the same base pay that I was getting before, I remain actively engaged along with the members of this Committee and the Ranking Member and so many other great partners in oversight over the implementation of the programs in Title I of the CARES Act, and we are committed to continuing to conduct vigorous oversight over these programs to make sure that they are operating the way Congress intended, including addressing the issues of fraud and the misuse of funds, which always comes every time government provides assistance of any kind.

Our oversight efforts, as I said, are going to continue next week on the 10th of June when this Committee will welcome the SBA Administrator and the Treasury Secretary for our next hearing.

And with that, I want to now recognize the Ranking Member, Senator Cardin.

OPENING STATEMENT OF HON. BENJAMIN L. CARDIN, RANKING MEMBER, A U.S. SENATOR FROM MARYLAND

Senator CARDIN. Well, Mr. Chairman, first, let me just join you and thank you for your comments on the tragic death of Mr. Floyd, the impact it has on the Civil Rights in this country but also the economic issues, which are also Civil Rights. I thank you for your comments.

I am going to be speaking on the floor later today in regards to Mr. Floyd's tragic death.

I also want to, on behalf of the Democratic members but I think all members of this Committee, thank your caucus for giving you a waiver so that you could continue as the chair of this Committee and also take on the added responsibilities on the Intelligence Committee. You have led this Committee in an extremely productive, bipartisan manner. So we are glad that you can continue in that dual role.

We do recognize that although your pay will remain the same, your per hourly rate will decline significantly, but thank you for your service.

I think every member of this Committee recognizes the importance of small businesses. We know that they create more net private sector jobs. We know that they find innovative ways to deal with economic challenges, which are going to even be more important in the post-COVID–19 environment, but we do know that they are more vulnerable to economic disruptions.

So when the economic cost of COVID–19 became clear, we in Congress and on this Committee especially recognized that we had to take special effort to support America's 30 million small businesses.

I was proud to be part of the bipartisan Small Business Task Force that negotiated and wrote the small business provisions of the CARES Act along with you, Mr. Chairman, and your leadership, Senator Shaheen, and Senator Collins. Together, we created three economic relief programs for small businesses: the Paycheck Protection Program; a new grant program under the Economic Injury Disaster Loan Program; and a debt relief program which covers the principal and interest payments on new and existing SBA 7(a), 504, and microloans for 6 months.

The program that has received the most attention in funding, PPP, was stood up seemingly overnight, and I want to compliment the employees of the Small Business Administration and the Treasury Department for rapidly increasing their capacity to get these critical loans to small businesses.

In the past 2 months, as you have pointed out, over 4.4 million loans worth more than $510 billion have been made. While this is a laudable accomplishment, there have been many major challenges.

First, when we initially created PPP, we though that our economic would be performing at a much higher level than it is today. So an 8-week period for small businesses to spend their loans seems reasonable. As communities began the process of reopening, it is now clear that most small businesses will not be up and running at the end of the 8-week period.

Mr. Chairman, I am proud that the task force was able to come together to agree on legislation to extend the 8-week period and give small businesses more flexibility to use their loans for business expenses other than payroll. I hope that we will be able to get that bill to the finish line within the next few days since we know that the 8-week period for the original loans that were issued will be coming due very shortly, and business owners need to know what the rules are in regards to forgiveness.

Second, there are important questions about the SBA's mismanagement of the EIDL and emergency grant program. EIDL is a preexisting disaster loan program intended to deliver low-interest, long-term loans to small businesses directly from the Federal Government. Because we knew that small businesses needed cash fast, we created the emergency grants to provide rapid capital infusion worth up to $10,000 to EIDL applicants.

As everyone on this Committee knows, PPP, EIDL and emergency grants, and the debt relief program were all created to work together. PPP helps keep employees on payroll. EIDL provides low-interest working capital. Emergency grants provide quick infusion of cash for businesses that need it urgently, and debt relief covers the interest and principal payments on existing and new SBA loans for 6 months.

I am discouraged that EIDL, a tool that has great potential to help small businesses seeking to adapt the new reality of the post-COVID economy, has reached fewer small businesses than we had hoped due to the administration's mismanagement of the program. Small businesses need these funds. Similarly, the emergency grant program currently has nearly $10 billion that should be in the accounts of small businesses around the country.

EIDL serves a particular role for businesses. It can be used for working capital needs, and it may be more desirable for the smallest small businesses that do not have many employees. Unfortunately, SBA has not administered the EIDL program in a manner that it makes it a reliable source for small businesses.

Third, we need to do a better job of targeting funding for small businesses that are truly in need, including minority, rural, and women-owned businesses.

On May 8th, at my and Senators Schumer and Brown's request, the SBA IG issued a flash report, which found that the SBA's implementation of PPP did not fully align with the congressional intent of the CARES Act, because the agency failed to issue guidance to prioritized underserved and rural markets in the program.

We have specifically put that into the statute. The reduced average PPP loan amount in the second round of funding indicates that by securing $60 billion in PPP funding for smaller lenders, including minority depository institutions and community development financial institutions, we ensure that PPP served more underserved and new small businesses, which are at the most risk of permanently closing during the crisis. We should not stop there.

Last month, Senator Booker and I released a plan that would address the historical systematic disparities in access to startup and operating capital as well as technical training and mentorship so underserved small businesses have the resources they need to adapt their businesses to the changes caused by COVID–19 and so they can thrive after the pandemic.

Failing to help these vulnerable small businesses runs the risk of extending this economic crisis, while also limiting our economy's ability to recover after we defeat COVID–19.

Lastly, Mr. Chairman, we need to have transparency and data related to how these programs are working. Yes, we wanted to get the money out to small businesses quickly, which we did in PPP, but expediency cannot come at the expense of transparency and accountability.

On April the 17th, I joined with Senator Schumer, Senators Shaheen and Wyden in a letter to Secretary Mnuchin and Administrator Carranza asking for this information to be made available on a regular basis. To date, we have still not received that information. I also introduced legislation that would require that information to be made available.

We on this Committee have heard promises that information would be made available, yet we are still not getting the granular information that is necessary for us to properly evaluate this program. We need to get that information. We need to have transparency, and we need to have accountability.

I want to compliment the Chairman for his efforts in making sure that we could get that information. He has been tenacious in talking with the administration to make it clear that that information must be made available, and I will join the Chairman today in a letter incorporating what we hope will be a solution to this issue.

But as we look forward to what comes next, we are going to need a second round. When we did the PPP program, we thought 8 weeks would be enough. We now understand that 8 weeks later, our economy is not back up to the level of performance that we had hoped, and as we look at what comes next, we need to have the information in order to make the proper judgment.

I am working with Senator Shaheen and Senator Coons on another round that would target money. Originally, we wanted to give the money out quickly, but as we look to a second round, we should look to target it to the smaller of the small businesses that really need help, that have had dramatic revenue losses, and I look forward to working with all members of this Committee as we have in the past to determine what additional legislation is necessary to help our small businesses.

I want to thank our witnesses for joining us this morning to help us better understand how these programs are working as well as how they are not meeting the needs of small businesses. The testimony you provide this morning is vital for our understanding of the successes and failures of these programs as we continue to conduct oversight on these programs.

And then, lastly, Mr. Chairman—and I mean lastly—thank you for arranging for the hearing next week for Secretary Mnuchin and Administrator Carranza. We desperately need them before this Committee for our oversight function. It is critically important that we continue aggressively on oversight and continue the great record of this Committee working together to help the small businesses of America.

Thank you, Mr. Chairman.

Chairman RUBIO. Thank you.

Let me introduce our witnesses. Joe Shamess is a veteran, special operations pilot, and a co-founder of Flags of Valor in Ashburn, Virginia. Flags of Valor is a veteran-owned, veteran-operated, veteran-made small business which crafts wooden products that reflect American values, and it was founded on the principles that combat veterans deserve an opportunity and that made in America mattered.

Connie Evans is the president and CEO of the Association for Enterprise Opportunity, which supports microbusiness development throughout the United States. Ms. Evans specializes in international development and social entrepreneurship and founded the Women's Self-Employment Project, the first urban microbusiness development organization in the United States. She also founded WSEP Ventures, a social enterprise hybrid organization, and CSolutions Consulting.

Dr. Michael Strain is the director of Economic Policy Studies at the American Enterprise Institute, where he oversees AEI's work in economic policy, financial markets, welfare economics, and related areas, and before joining AEI, Dr. Strain worked at the U.S. Census Bureau and the Federal Reserve Bank in New York.

Nick Rudolph is the Baltimore regional director of Maryland Capital Enterprises, a 501(c)(3) nonprofit organization working to support community development through small business creation and growth. He also serves as the MCE Women's Business Center Baltimore coordinator.

I thank you all for being here.

Let me just begin with Mr. Shamess, because he is here in person, sitting really far away at the other end of the table. I think the camera will go to him now when his microphone is activated. Thank you for being here, and then next, after that, I will turn to Ms. Evans and then the order in which I introduced you all.

So, Mr. Shamess, we will begin with you. Thank you.

STATEMENT OF JOE SHAMESS, CO–FOUNDER, FLAGS OF VALOR

Mr. SHAMESS. Thank you, Mr. Chairman. Thank you, Senators. It is an immense privilege to be here on behalf of the men and women at Flags of Valor, the U.S. Chamber of Commerce, and to represent some of the small businesses in the United States.

I can tell you that our business is a little bit different. You mentioned some of it, Mr. Chairman, in your opening remarks. We are both a retailer and a manufacturer. So we are experiencing two different parts of the pandemic, but on top of that, our entire mission is a little bit different than some businesses because we are really geared towards empowering combat veterans postservice. In fact, many of the people that we seek are the ones that are often the hardest to fit in most parts of the economy, and so we take a great deal of pride in that.

So in maintaining our employees when you talk about some of the programs that we are going to discuss today is of critical importance to us.

I will say that it is bad out there. In early March, we woke up one day to having two-thirds of our revenue gone, and as you can imagine, based on the dialogue that has taken place within this Committee, that is devastating. Two-thirds when most businesses are running at 10 to 20 percent bottom-line profit if they are lucky, it is hard to come back from.

So are things improving? Sure. The things that you have done, particularly with the Paycheck Protection Program, have been termed "lifeline," "lifesaver," "business saver." You are saving businesses with that program, no doubt. We are one of them. The liquidity that provided us to retain our employees, to repatriate them back to work, to support our rents and some of the other overhead expenses we have has kept us afloat. We are fighting today because of it.

Was it perfect? No. But you got pretty darn close with the way you laid it out, with very little information for that. We are incredibly grateful.

But I have to say that the Government support is not going to be enough, not that we need more Government support, per se, but that we as business owners have to innovate our way through this. We cannot rely solely on something that comes from the Federal Government to keep us alive, and so innovation has to take place, and some businesses are doing that more than others.

For us, we could not transition to creating masks and face shields and respirators based on our manufacturing process. There is a lot of dust in wood manufacturing, as you can imagine, but we did create something that allowed us to solve another problem, which was kids being home with their parents, schools shut down, and you need something meaningful to do. With that, we created the kids' Build Your Flag kit, which I have one here today. My son, Gabriel, made this, and he is really proud of it, and I am proud of him for doing it. But something as simple as this allowed us to create a solution to bring families together to talk about something other than COVID for a minute, to talk about what this means, and it has been enormously impactful for us, and we have been able to interact with thousands of families in the country with that.

So that type of innovation is taking place outside of Flags of Valor. Other companies are doing things, whether it is creating PPE, whether it is changing their entire business model so that they can serve customers outside their walls, but that does not work for everybody. Some companies fundamentally cannot operate in this environment, and I think it is important for us to be mindful of that.

The number one thing that we would ask for if we could help influence this going forward is to help provide certainty and simplicity in the system. There is a lot of legislation that is already in the works. Some of it, I know was mentioned being voted on later this week that will provide additional simplicity.

The certainty we need is to know that the Paycheck Protection Program or other lending functions that you have enacted will actually run the way that we were told, so that our loans will be forgiven if we follow the rules and do the right thing. I think that is really important.

The other thing is certainty that if we follow CDC guidelines and we take care of our employees and we run our businesses responsibly, at some point, we are not going to be held accountable that someone contracted COVID–19 on our premises. That is really important. That liability protection gives us the confidence that we can continue to operate.

Then the last part with simplicity is understanding that the way that this was laid out—I will speak specifically about the Paycheck Protection Program. I cannot believe—we say 8 weeks might not have been enough. We did not think it would be shut down this long. Okay, true. It is pretty good. It is pretty good, not that we got it right, but that you thought that this would be longer term, because I thought it would be 2 or 3 weeks as a business owner. I thought I would be shut down for a little bit, power down, and we would power right back up.

But if we can elongate that time period, it is already being discussed, and second, change the ratios from 74/25 because that just simply does not fit many of the small businesses.

The small business demographic is incredibly diverse. Every major company in S&P 500 one day started as a small business. They are here now in the small business arena. That is the first stop on the way to becoming a big business, and they look different. They all look different. So helping them make decisions best allow them to stay alive, and in my case, I would say save the patient. If the business does not survive, there is nothing for the employee to come back to. So help them survive.

With that, thank you.

[The prepared statement of Mr. Shamess follows:]

Perspectives from Main Street:
COVID-19's Impact on Small Business

Joseph Shamess

Co-Founder and Owner

FOV
FLAGS OF VALOR

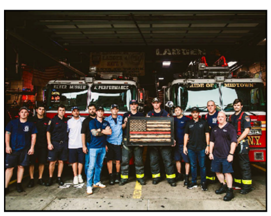
Committee on Small Business & Entrepreneurship
United States Senate

June 3, 2020

Chairman Rubio, Ranking Member Cardin, and Members of the Committee: My name is Joe Shamess and I am a co-founder and owner of Flags of Valor based in Winchester, VA. Flags of Valor is both a manufacturer and retailer, and we are proud to be members of the U.S. Chamber of Commerce's Small Business Council. The testimony I am presenting this morning is on behalf of the men and women at Flags of Valor and the U.S. Chamber of Commerce.

Since our start in 2015, Flags of Valor (FOV) grew from a two-person garage operation to a nationally-heralded veteran manufacturing company. Founded by two veteran special operations pilots, we specialize in hand built wooden products that showcase American values. From the beginning, we dedicated Flags of Valor to being American made, empowering veteran hands, and robustly giving back to charity. In less than five years we've proven this commitment by employing more than **65 veterans**, raising **$1,060,000 for veteran and first responder charities**, and delivering over **97,000 hours of American manufacturing labor**.

We share a fundamental belief that our nation's war veterans are one of its greatest resources. Each of them entered military service lacking the technical skills of their military specialty, however they learned quickly and adapted to diverse environments. We've witnessed these strengths transferred to industry. A strong empathy for the veteran journey led us to purposely pursue the most troubled veterans who are dealing with Post Traumatic Stress or physical disabilities from their military service. The environment at Flags of Valor serves as a sanctuary for them, a place where they can convert raw materials into beautiful works of art. At Flags of Valor, we built a culture where camaraderie, shared mission, and love of country resonates deeply with every teammate.



Employing the nation's heroes when they return home:

Our strategic vision is to become **"The"** Veteran Powered American Manufacturing Company, creating an increasingly broad spectrum of premium products and solutions for both consumers and businesses. Since our beginning, we've expanded from strictly wooden American flags, to a fully scaled operation that produces employee recognition gifts, commemorative items, furniture, and even experiential event hosting. We've been able to take on this level of expansion through the strength of our partnerships coupled with the dedication of our talented team of veterans. To many of our supporters, our mission and products are a tangible expression of patriotism and service…a communication of shared values.[1]

COVID-19's Impact on Small Business:

The Chamber publishes a monthly Coronavirus Impact Poll with MetLife, and the latest report was issued this morning. I am including a complete copy of the report with my statement, but will summarize the top-line findings here.

The bad news is that 55 % of small businesses believe it will take six months to a year before the U.S. business climate returns to normal. That sentiment has grown from 50% last month and 46% two months ago.[2] The good news is that as more small businesses re-emerge, they are relatively optimistic about the future even while still dealing with many ongoing challenges. 50% of small businesses expect next year's revenues to increase, up from 47% last month. And, 19% expect next year's revenues to decrease, which is a lower than last month's 25%.[3]

Small Business and the Economic Recovery:

The importance of small business is not a mystery to this Committee, but it bears repeating here. Data from SBA's Office of Advocacy show that small businesses accounted for 64.9% of net new job creation between 2000 and 2018. While most small businesses (81%) do not have employees, employer firms like Flags of Valor employ just under half (47.3%) of the private sector workforce and small businesses overall account for 43.5% of GDP. Last, but certainly not least, we are proud to be part of the 2.52 million veteran-owned small businesses in the United States.[4]

The positive attributes of small business are more than statistics and many of us realize how important small businesses are to the fabric of our communities when we have been prevented from visiting, frequenting, shopping, and experiencing small businesses throughout America when quarantined at home over the past 3-months. As small businesses are anxious to re-open, so too is the American public thirsty to experience normalcy by walking into shops, talking with small business owners, and eating out at restaurants again. Throughout our experience, there is a fear of what America would be like without Main Street small businesses.

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[1] Flags of Valor has been honored with: US Chamber of Commerce Veteran Business of the Year (2019), Washington Business Journal Veterans in Business (2019), Small Business Veteran of the Year: Virginia Small Business Development Center (2019), Hiring our Heroes Chamber of Commerce - Capital One Small Business Award for Veteran and Military Spouse Employment (2018), Company of the week: ABC World News Tonight: David Muir (2017).

[2] MetLife & U.S. Chamber of Commerce Small Business Coronavirus Impact Poll (June 3, 2020), *available at:* www.uschamber.com.

[3] *Id.*

[4] *Frequently asked Questions,* Office of Advocacy, U.S. Small Business Administration, (September 2019), *available at:* https://advocacy.sba.gov/2019/09/24/frequently-asked-questions-about-small-business/.

The Paycheck Protection Program (PPP):

Let me begin my summary of the PPP by thanking this Committee. It is my understanding that you and your staff carried an overwhelming responsibility for the PPP. Additionally, I want to thank the White House, Treasury, and the SBA because we know that had it not been for the combined efforts of all of these departments we never would have experienced the rapidity and scope of this vital funding. In the first 9 weeks of the coronavirus small business lending program, about 4.5 million loans totaling $511 billion have been made, utilizing over 5,500 banking and lending partners. Data from the U.S. Census Bureau estimate that over 69% of small employers have received PPP funding.[5] That is amazing. I will explain the difference a PPP loan has made for Flags of Valor, but I think it is valuable to understand that our experience can be multiplied by several million small business owners.

At Flags of Valor, we sell into three primary channels: direct to consumer online, retail, and business-to-business sales. In early May we lost 2 of these channels overnight. Stay at home orders coupled with the massive uncertainty for business buyers left our cash flows devastated. We took very aggressive actions early on based on the assumptions that the pandemic may be long term and that zero help was coming from the government. Every year we experience seasonality in our business and most recently we've seen our headcount fluctuate between 12 and 24 depending on the season. Circumstances from COVID-19 forced us to furlough half of our team of veteran craftsman and all remaining staff took 50% reductions in compensation. This experience was gut wrenching and also inspiring. Our team understood what needed to be done and supported the necessary decisions for the good of saving our company and preserving our mission. We stayed in close contact with the furloughed members, helping them through the process of filing unemployment claims, and keeping everyone up to date on the status of prospective legislation.

In the following weeks, I personally participated in every conference call I could with political leaders, the Chamber, banks, and media outlets. We were supposed to be first in line for the Paycheck Protection Program through our primary lender, but due to internal confusion on their part (understandable due to the unprecedented nature of this time) and the rapid exhaustion of funds, we did not receive aid in the first round of funding. Thankfully we had good counsel through the Chamber that additional funding was likely. Sure enough, when the second round of funding was delivered, we were one of the many fortunate recipients.

Immediately upon confirmation of our PPP loan approval, we restored our entire team back to work (minus one employee who chose to become a stay at home parent who we replaced with a new veteran hire). Additionally, we were fortunate to restore staff salaries and become current with some of our landlords who we were previously unable to pay. The feeling of restoring the team was beyond up lifting. Despite additional looming uncertainties, our business is alive and we are able to continue our mission of creating opportunity for veterans, making it in America, and giving back to charity. I cannot

[5] *Small Business Pulse Survey,* United States Census Bureau, (May 28, 2020), *data available at:* https://portal.census.gov/pulse/data/.

express enough the significance PPP had on our business. Early on it gave us hope when it was simply being discussed. Since becoming a reality, it's allowed us to keep fighting. We had slight concerns that some of our team may elect to forego a return to work due to increases in unemployment benefits. These concerns were unfounded. Every member returned eagerly. I am incredibly proud of them and the character that embodies our shared ethos of hard work and serving others.

There has been a lot of criticism in the media aimed at perceived deficiencies in the PPP, from stories of big companies that were approved to frustrations with the lending process. I want to dispel some of these criticisms. The PPP would have been impossible if it had to be perfect. From the perspective of a small business owner, this was an *all hands on deck, build the parachute on the way down, whatever it takes* time in our history. The fact that the federal government, led by this committee, was able to construct this program and get it into action so quickly is nothing short of commendable.

Another Small Business Council member, The Communication Center (TCC), which specializes in media training, executive communication, and training, based here in Washington, D.C., had a similar experience, but was lucky to have received a PPP loan in April. Our annual Small Business Council meeting occurred on March 10th and TCC's President & CEO, Dean Jones Hinchey, left our meeting knowing her business would suffer when COVID-19 spread across the United States. Sure enough, all Dean's contracts planned for April through June (their busiest months) cancelled in the next 2-weeks. Her bank, Sandy Spring Bank headquartered in Olney, MD, already had The Communication Center's financials because Dean had inquired about a line of credit immediately after returning from the Small Business Council meeting. Dean's application was submitted on April 3rd. Sandy Spring Bank received an SBA loan number on April 8th, and TCC received funding on April 24th. Because of the PPP loan, TCC has been able to keep all of its 11 employees on payroll. One trainer who decided to be a contractor instead of an employee in January was able to obtain her own PPP, aided by Dean's team who helped prepare the financials and make the banking connection.

Innovating Through the Pandemic:

It is important to explain that government resources and help have provided us with a lifeline. However, there is a lot more to economic survival than grants, loans, and other governmental assistance. At a conference call in March when we were sorting through the impacts of the pandemic I said to our team "Stop talking about all the things we cannot do and focus exclusively on the things we can still affect." Incredible innovations began to take shape. Our manufacturing process wouldn't allow us to transition to making masks or respirators, so we chose to focus on a different problem. With schools closed and millions of American families living in isolation we knew there was a need for something meaningful to do with children. Led by fellow co-founder and owner, Brian Steorts, our team designed a brilliant solution, the "Kid's American Flag Build Kit." This product allows us to bring families together, build something beautiful, and share stories of American values. The response from our supporters has been overwhelming, with thousands of families participating.

Developing the product, building the manufacturing solution, branding, copywriting, and marketing all had to be done while part of our team worked remotely and those in the workshop were following CDC guidelines. It was an immense undertaking. While generating income, it's not a perfect fix with added shipping challenges, decreased margins, and supply chain uncertainty. However, it's helped us stay alive and move forward. To further our effort to bring families together we launched a daily Pledge of Allegiance, delivered live every weekday at 9:00 AM EST from our workshop. It has allowed our supporters to hear stories of service from our veterans, to focus on national unity, and give children a small piece of daily rhythm. The innovation continues every day as we strive to be a better version of ourselves. In many ways, the pandemic has forced many businesses to dramatically expedite organizational change that normally takes years to take shape. We are no exception. Survival requires more than grants and traditional business practices. It requires the unmatched American ingenuity and zeal that has guided our national history of facing challenges and achieving victories.

Staring at a blank calendar, during her busiest season, Dean Jones Hinchey realized TCC needed to pivot quickly to survive. She pulled her team together and began the process of redesigning the organization's face-to-face training sessions. All courses are now adapted to accommodate a virtual format. WebEx, Teams, and Zoom are the most popular platforms for coaching, but also the most exhausting. Dean's company has rebounded from what could have been total disaster to 40% of its typical training capacity. The process has taken a toll on TCC employees. Face-to-face training sessions that were 8 hours in length are now reduced to 5 hours to reduce screen exhaustion. Dean's trainers have admitted that 5 hours of virtual coaching is much harder that a full day of face-to-face training – but they feel lucky to have survived layoffs and furloughs.

Going forward, the future is more promising for TCC than expected, but their PPP loan runs out on June 15th. Although, salaries have remained intact up until now, TCC is only running at 40% capacity, so salary cuts and possible layoffs loom.

TCC's executive team have committed to taking 20-30% salary cuts to try and save the rest of the staff, but further cuts are coming if business does not return to normal levels. The PPP loan was of great help for two months, but the effects of this crisis on small businesses will last much longer.

Resources Needed Going Forward:

Small business is hurting and while data from the MetLife & U.S. Chamber of Commerce's Small Business Coronavirus Impact Poll shows encouraging signs of improvement, the same poll shows that more and more small businesses believe that we will not be back to normal operations in 6-months.[6] There will be additional need for bridge funding for small businesses experiencing unanticipated costs during phased-in reopening plans. When this Committee considers resources to help, please understand that our focus on re-opening is to protect our employees and our customers while building back revenues. That means that additional efforts should be focused on certainty and simplicity so that we can proceed with confidence and without distraction.

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[6] MetLife & U.S. Chamber of Commerce Small Business Coronavirus Impact Poll (June 3, 2020), *available at:* www.uschamber.com.

With regard to certainty, we need assurance that when we follow official advice on protecting our employees and our customers from COVID-19 infection we will be granted a safe harbor from lawsuits. Also, we need certainty that our support system will remain intact. This Committee has done a good job ensuring that Small Business Development Centers, Women Business Centers, Minority Business Development Agency's Development Centers, and Veteran Business Outreach Centers are well positioned to help. However, hundreds of local chambers of commerce, that are connecting their businesses with legislators, health officials, SBA officials, and others, are at the brink of shutting down because they depend financially on large in-person events. They should be allowed to access PPP loans.

With regard to simplicity, sometimes well-intended government programs experience diminished results because of the complexity that is often compounded by government-speak. The PPP has encountered this problem and we encourage the Senate to follow the House's lead in simplifying the program. It makes sense to extend the time period for spending PPP loan proceeds. And, it is a good idea to provide flexibility for the percentages governing how much of PPP loans can be spent on payroll and allowable. These straightforward changes would allow for the PPP to benefit more small businesses and their employees.

I want to close my statement by reiterating my gratitude for the efforts of this committee and for your work in a bi-partisan fashion to help the entire small business community get through the coronavirus pandemic. The U.S. Chamber of Commerce and our Small Business Council is committed to working with you, SBA, the Treasury Department, and other partners to make sure small businesses emerge from the pandemic in a way that benefits our families, our employees, our communities, and the United States of America.

Chairman RUBIO. Thank you very much.
Ms. Evans, thank you for joining us.
[No response.]
Chairman RUBIO. I do not know if we have her. Is your volume on? It says that you are muted. Try now.

STATEMENT OF CONNIE EVANS, PRESIDENT AND CEO, ASSOCIATION FOR ENTERPRISE OPPORTUNITY

Ms. EVANS. Can you hear me?
Chairman RUBIO. Now we can hear you.
Ms. EVANS. Thank you. Thank you, Mr. Chairman, Chairman Rubio, Ranking Member Cardin, and distinguished members of the Committee. My name is Connie Evans, and I am president and CEO of Association for Enterprise Opportunity, AEO, the leading voice of innovation in microfinance and microbusiness in the United States.

Today's hearing comes at a time as the Nation struggles to combat a twofold crisis—the economic downturn sparked by a global pandemic and the structural inequities and injustices that disproportionately impact communities of color. This pandemic has exposed and enlarged the structural disparities in a new way.

In late March, Congress passed the CARES Act, which has deployed more than $500 billion to small businesses since early April. The legislation also called for the prioritization for underserved businesses. Despite this unprecedented attempt to safeguard the Nation's 30 million small businesses, lawmakers' intentions have not fully addressed the most vulnerable in our country.

In early May, the FDA Inspector General found that regulations failed to ensure the prioritization of underserved businesses. While SBA and Treasury worked to correct these initial flaws, the damage is already beginning to set in for many overlooked businesses, particularly Black- and Latin-owned businesses.

Take, for example, the irreparable damage for Kwame Onwuachi, owner of Kitch and Kin, a Black-owned restaurant that closed and laid off 70 employees in the process. Historic Ben's Chili Bowl even struggled to receive a PPP Loan due to an overwhelmed implementation system.

Before I continue with my prepared remarks, as an advocate for millions of minority-owned businesses, I must address the broader environment of race relations in this country. This past week has shown us that America continues to struggle with discrimination in every aspect of life. The avoidable and tragic deaths that continue to befall African Americans only deepens divides. While Main Street cannot solve these problems, the outrage that follows these senseless killings very much plays out on Main Street. Economic opportunity for all communities, including entrepreneurial opportunity, will help heal these deep wounds.

This Committee's work to ensure that Black-owned businesses survive the current economic crisis may very well help that healing.

AEO stands ready to help Main Street prosper. Through our Mainstreet RISE program, we are helping thousands of businesses directly. Today, we are launching two new reports focused on combating food disparity and addressing high recidivism rates in underserved communities, and we have launched a new survey of small businesses to allow policymakers to hone in on what policy proposals might be most impactful.

But we need policy changes as well. We must modernize many of the programs at SBA in desperate need of reauthorization. The outdated statute is limiting the ability of the programs to successfully respond to this crisis. AEO has testified before this Committee about the importance of removing the 1/55th rule in the microloan program, which also needs increased liquidity. The PRIME program and Resource Partners programs also need expansion.

We commend this Committee and Senator Duckworth for leading this effort and hope to see that work progress, despite the crisis we face.

Congress should also substantially increase FY 2021 funding for mission and community-based programs like Community Advantage and the microloan program as well as increase the CDFI fund to $1 billion.

We have several recommendations to strengthen the PPP Loans. We recommend making CDFIs automatically eligible lenders and guarantee all loans made by CDFIs to low, moderate income, and minority businesses. This can help build on the congressional intent this Committee included in the CARES Act on page 30 of the legislation.

AEO along with 50 other leading organizations founded the Page 30 Coalition in response to your leadership to ensure the prioritization of underserved community is realized.

The coalition asks Congress to eliminate the PPP first-come-first-serve rule, extend the PPP, provide additional PPP funding only for firms with 10 or fewer employees, and improve data collection.

We also support the Cardin-Booker Equity in COVID–19 Recovery White paper.

And, finally, I must use my time before Congress to insist that you use congressional review authority to undo the OCC's proposed CRA reforms that would only further damage the engagement of lending institutions in underserved areas.

I want to thank you for your efforts on behalf of millions of minority- and women-owned businesses and for the opportunity to testify today. I look forward to answering any questions. Thank you.

[The prepared statement of Ms. Evans follows:]

Testimony of

Connie Evans

On behalf of the Association for Enterprise Opportunity

to the

U.S. Senate

Committee on Small Business & Entrepreneurship

Perspectives from Main Street: COVID-19's Impact on Small Business
June 3, 2020

Testimony of Connie Evans
President & CEO
Association for Enterprise Opportunity (AEO)

Thank you, Chairman Rubio, Ranking Member Cardin, and distinguished Members of the Committee, for the opportunity to share this testimony with you. My name is Connie Evans, and I serve as the President and CEO of the Association for Enterprise Opportunity.

The Association for Enterprise Opportunity (AEO) is the leading voice of innovation in microfinance and microbusiness in the United States. Since 1991, AEO and its member and partner organizations have helped millions of entrepreneurs contribute to economic growth while supporting themselves, their families and their communities.

Numbering more than 1,700, AEO's members and partners include a broad range of organizations that provide capital and services to assist underserved entrepreneurs in starting, stabilizing, and expanding their businesses. Together, we are working to change the way capital and services flow to underserved entrepreneurs so that they can create jobs and opportunities for all.

Beyond being the voice for financial inclusion through entrepreneurship, AEO is a fintech innovator that is responsible for creating myWay to Credit—the first bank referral marketplace for small business lending. myWay to Credit was developed with JP Morgan Chase, Woodforest National Bank, and the U.S. Treasury CDFI Fund. myWay to Credit gives options to small businesses that do not currently qualify for bank financing by connecting them to a vetted network of mission-based community lenders and small business mentors.

Today's hearing on the impact of COVID-19 on small businesses comes at a time as the nation struggles to combat a two-folded crisis: 1) the economic downturn sparked by the global health emergency; and 2) the profound presence of structural inequities and injustices that disproportionately impact communities of color.

The coronavirus pandemic has halted economic activity around the nation—sending Main Street businesses into a state of shock. At the onset of this crisis, experts projected that over half of the country's small businesses would face some level of uncertainty.[1] In the time since, the pandemic has stifled the small business ecosystem, exceeding experts' predictions.

Unfortunately, like preceding crises, minority populations are disproportionately impacted by this dreadful reality. Minority and women entrepreneurs historically face racial and gender challenges that ultimately lead to barriers for their businesses.[2] This pandemic has exposed and enlarged these structural disparities in a new way.

In late March, policymakers swiftly passed the *Coronavirus Aid, Relief, and Economic Security Act of 2020 (CARES)* and its subsequent relief legislation to address economic uncertainty caused by

[1] https://www.brookings.edu/research/how-local-leaders-can-stave-off-a-small-business-collapse-from-covid-19/
[2] https://www.mckinsey.com/industries/social-sector/our-insights/covid-19s-effect-on-minority-owned-small-businesses-in-the-united-states

the pandemic. The relief package, which formed the signature Paycheck Protection Program (PPP), has deployed more than $500 billion to small businesses since early April. The legislation also called for the prioritization for underserved businesses.

Despite this unprecedented attempt to safeguard the nation's 30 million small businesses, lawmakers' intentions have not fully addressed the most vulnerable. In early May, the Small Business Administration (SBA) Office of the Inspector General (IG) released a report on the agency's implementation of the PPP and found that federal regulators failed to ensure the prioritization of underserved businesses.[3] While the SBA and Treasury work to correct the structural flaws, the damage is already beginning to set-in for many overlooked businesses—particularly Black and Latinx-owned businesses.[4]

Take for example, the irreparable damage for Kwame Onwuachi, owner of the Kith and Kin, a popular black-owned restaurant here in the District. Onwuachi has recently succumbed to the financial challenges induced by the pandemic and closed his business, laying off 70 employees in the process. As it stands, he is unable to receive the funds necessary to survive due to regulatory and policy-gaps in small business relief programs such as the PPP.[5] This reality remains true for many minority-owned businesses such as the historic Ben's Chili Bowl, who up until recently, struggled to receive a PPP loan due to an overwhelmed implementation system.[6]

These are local and brief examples of thousands of stories felt by AEO' membership. Not only are communities of color subjected to the economic fragility, health disparities, and resource inequities caused by policy-gaps, but they must also live with the presence of structural injustices.

It is challenging, as an organization that advocates for millions of minority-owned businesses, in addition to underserved urban and rural populations, to address this Committee without speaking to the broader environment of race relations in this country. As this past weekend has shown us, America continues to struggle with discrimination in every aspect of life. The avoidable and tragic deaths that continue to befall Black Americans only deepens divides. While Main Street cannot solve these problems, the outrage that follows these senseless killings very much plays out on Main Street. My only comments today on these issues, is that a future of economic opportunity for all communities, including entrepreneurial opportunity will help heal these deep wounds. This Committee's work to ensure that black-owned businesses survive the current economic crisis may very well help that healing.

AEO stands ready to help Main Street prosper. Most recently, we have focused our efforts on providing on-the-ground support for underserved entrepreneurs during COVID-19. With the

[3] https://www.sba.gov/sites/default/files/2020-05/SBA_OIG_Report_20-14_508.pdf
[4] https://www.washingtonpost.com/business/2020/05/25/black-minority-business-owners-coronavirus/
[5] https://www.wsj.com/articles/a-rising-star-chef-struggles-to-save-his-restaurant-11590767894
[6] https://abcnews.go.com/US/coronavirus-pandemic-brings-bens-chili-bowl-iconic-dc/story?id=70243517

launch of the *Mainstreet RISE* campaign, AEO aims to help small businesses survive, recover, and thrive during these uncertain times. Through this campaign, we will, among other actions, help entrepreneurs generate sales and revenue for their enterprise and get mentorship and training.[7]

Our recent actions will also better equip policymakers on federal, state, and local levels. Amid the convening of our 2020 digital conference— *Resilient: Small Businesses Strengthening Local Economies*—today, we are releasing two reports focused on combating food disparities and addressing high recidivism rates in underserved communities. The *MICROBUSINESS: A Community-Centered Solution to Inequitable Food Systems* and *Endeavor READY Returning Citizen Entrepreneurship* reports will provide lawmakers with an in-depth analysis and entrepreneurial solutions that can bridge the policy-gap in the years ahead. We will submit the reports to the congressional record upon their release.

Despite our efforts to safeguard Main Street, the pandemic's lasting impact remains uncertain. Its economic consequences are projected to erase decades of minority enterprise growth in underserved markets. To prevent this, we believe policymakers must acknowledge the existing disparities in our small business ecosystem and take the necessary steps to create equitable legislation to ensure that vulnerable businesses survive and thrive in the years ahead.

To that end, we are proposing that Congress consider immediate and long-term solutions that will bolster underserved communities and examine the impact of federal small business relief programs. We suggest policymakers achieve this by:

Expanding Technical Assistance (TA) support
Low-income entrepreneurs who lack sufficient training and education depend on federal TA support to gain access to capital that establishes and expands their small businesses. Amid the current challenges ahead, these entrepreneurs and business owners will require increased TA services from the Small Business Administration (SBA.)

We urge lawmakers to commission a new program within the SBA that will 1) expand the reach of TA services beyond the agency's existing *Program for Investment in Micro-Entrepreneurs (PRIME) TA;* and 2) increase liquidity for microloan intermediaries that provide TA support to unserved businesses. The creation of a permanent technical assistance program will help meet the immediate needs and ensure that underrepresented markets can equitably access federal resources.

We also urge this Committee to continue its efforts to modernize many of the programs at SBA in desperate need of re-authorization. The outdated statute for many programs is limiting the ability of the programs to successfully respond to this crisis. For example, AEO has testified before this Committee about the importance of removing the 1/55th and 25/75 (now 50/50) rules in the

[7] https://aeoworks.org/mainstreetrise/

microloan program. We also urge the Committee to make permanent the Community Advantage loan program—a prime example of how Congress responded to prioritize underserved communities. Many of our members are also SBA resource partner, whose programs have waited far too long for modernizations. We commend your efforts already to truly modernize the SBA in a comprehensive action and hope to see that work progress despite the crises we face.

Increasing Fiscal-Year 2021 appropriation levels

In addition to the TA support, policymakers must prioritize existing SBA mission-driven loan programs through additional appropriations. While new programs, like PPP, require attention, Congress should also deploy resources to the programs proven to help underserved and minority communities. Current SBA community-based programs such as the Community Advantage (CA) 7(a) loan program and the Microloan program are leading avenues of funding for women and minority small business owners.

As of 2019, the CA loan program has provided nearly $800 million to 6,000 borrowers in low- and moderate-income (LMI) communities.[8] Amid the current small business crisis, policymakers must seek to expand funding for these programs within the forthcoming FY2021 appropriation proposals. The increase and reauthorization of these programs will safeguard our most vulnerable small businesses in the months and years.

AEO will urge the House and Senate Appropriations Committees to substantially increase funding for these programs in FY2021 funding and hope this Committee will support that effort.

Supporting CDFI lenders

In many underserved markets, Community Development Financial Institutions (CDFIs) have become some of the leading lenders of credit and investment capital to small and emerging businesses.[9] These mission-focused financial institutions commonly serve entrepreneurs that require loans less than $100,000, while also offering assistance in refining business plans, analyzing market opportunities, and the like.

Despite this success, CDFIs frequently go overlooked by federal entities that distribute critical resources (e.g., PPP loans) in place of traditional financial institutions. We urge Congress to take action to support these lenders by 1) amending the PPP loan to ensure all certified CDFIs are eligible lenders; 2) guarantee all loans made by CDFIs and other mission-based lenders that serve low-income households and minority-owned firms during the crisis; and 3) increase the Department of Treasury's CDFI Fund operational budget to $1 billion in FY2021 appropriations levels.

[8] https://fas.org/sgp/crs/misc/R41146.pdf

[9] https://www.cdfifund.gov/Documents/Relationships%20between%20Community%20Development%20Financial%20Institutions%20and%20Conventional%20Lenders%20in%20Small%20Business%20Finance.pdf

<u>Prioritizing underserved and rural markets</u>

As mentioned, minority and women PPP applicants went largely unserved by traditional lenders, despite congressional intent[10]. To call attention to this inequity, AEO joined with 50 industry-leading-organizations to launch the Page 30 Coalition.

In early May, the Coalition pinned a letter to Congress urging members to eliminate the PPP "first come, first serve" rule, extend the PPP through December 31, 2020, provide additional PPP funding <u>only</u> for firms with ten (10) or fewer employees, and the creation of a *CARES Act* transparency mechanism[11]. We ask that you consider all of the stated priorities, as they are slated to provide underserved markets with equitable inclusion in the historic small business relief response.

<u>Improving reporting on federal programs</u>

The *CARES Act* and its subsequent supplemental legislation have deployed billions in relief aid. In its initial PPP guidance, regulators failed to create a transparency mechanism that would record loan recipients—a widely-pushed measure to ensure underserved small business participation. Instead, the agency released an optional demographic alternative in recently released loan forgiveness guidance. Despite well-intended action, underserved businesses remain lease served by the program.[12]

Data is a powerful tool, that when used correctly, can shape the world we live in.[13] We at AEO utilize government-released data to create policy material for lawmakers to better serve their constituencies. Legislators must implement a transparency mechanism in SBA loan programs that includes a breakdown of loans by state, demographics, industry, and loan size.

We commend Ranking Member Cardin, Leader Schumer and Senators Shaheen, Brown and Manchin for their *Transparency and Oversight of COVID-19 Small Business Recover Assistance Act of 2020*, a bill that would place a mandatory daily and weekly reporting measure on SBA COVID-19 and disaster programs. We encourage the inclusion of this language in any broader package. This action will provide lawmakers and regulators with the metrics necessary to ensure the program is working in favor of all small businesses.

<u>Enacting the Proposed Equity in COVID-19 Recovery Whitepaper</u>

[10] https://assets.documentcloud.org/documents/20059055/final-final-cares-act.pdf
[11] https://irp-cdn.multiscreensite.com/5c77111b/files/uploaded/Page%2030%20Coalition%20letter%20to%20lawmakers.pdf
[12] https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-cares-act2-smallbusiness-2020.pdf
[13] https://issues.org/esty-2/

Testimony of Connie Evans
President & CEO
Association for Enterprise Opportunity (AEO)

Congressional relief efforts have helped millions of Main Street businesses weather the economic storm, but more must be done. We fully endorse the Cardin-Booker *Equity in COVID-19 Recovery* whitepaper. Among other actions, this proposal would make the SBA's 7(a) Community Advantage program permanent, create the Office of Emerging Markets at SBA to focus on capital access needs of underserved communities, and support government contracting for minority businesses.[14]

We urge Congress to consider these policies as it will place our country's most vulnerable businesses on the road to recovery.

Protecting the Community Reinvestment Act

In 1977 the Community Reinvestment Act (CRA) was passed by Congress to ensure banking institutions in low and moderate income (LMI) communities were meeting the needs of the neighborhoods they serve. The regulations governing the CRA program have gone largely unchanged for more than two decades. While there is general consensus to modernize this act, we believe that the Office of the Comptroller of the Currency's (OCC) recently released final rules[15] would disincentivize investment in the communities that need it the most.

The final rules, set to go into operations later this year, reinforce structural flaws that remain consistent throughout many federal programs. Among many changes, the OCC released flawed evaluation measures for financial institutions, a limited retail lending test, and unclear language regarding test components.[16] The opposition to this effort is well-stated, and we urge this Committee to ensure that regulatory changes amid the crisis would not harm underserved communities.

Conclusion

I want to thank you for your efforts on behalf of the millions of minority and women-owned businesses. Despite our country's current trials, I believe that we, with the help of our small businesses and entrepreneurs, will make it through these turbulent times.

AEO is grateful for this Committee's continued bipartisan support of small business relief amid the country's crises, and I appreciate the opportunity to testify today. I look forward to answering any questions.

[14] https://www.sbc.senate.gov/public/_cache/files/9/0/90135abe-b624-478e-b638-4e3b4fd1dc67/B5DC0FBD2B8E5B404CAFBB855F9F51CE.-final-equity-in-covid-19-recovery-act-white-paper.pdf
[15] https://www.occ.treas.gov/news-issuances/federal-register/2020/nr-occ-2020-63a.pdf
[16] https://ncrc.org/summary-fact-sheet-on-the-occs-final-cra-rule/

Chairman RUBIO. Thank you very much. Thank you. We look forward to engaging with you here in a moment.

Dr. Strain, are you ready?

STATEMENT OF MICHAEL STRAIN, PhD, DIRECTOR, ECONOMIC POLICY STUDIES, AMERICAN ENTERPRISE INSTITUTE

Mr. STRAIN. Yes, Mr. Chairman. Thank you.

Chairman RUBIO. Can we zoom in on Dr. Strain just so we can see what books he has there on his shelf?

Mr. STRAIN. Let me tell you the best one, right here. You are quoted, my latest book.

Chairman RUBIO. A shameless plug. All right. Go ahead.

[Laughter.]

Mr. STRAIN. Chairman Rubio, Senator Cardin, and members of the Committee, thank you for the opportunity to appear before you today to discuss COVID–19's impact on small business. It is an honor.

The U.S. economy is in bad shape. My back-of-the-envelope calculation finds that GDP is being reduced by roughly $80 billion per week because of the pandemic recession.

In just 2 months, the unemployment rate increased by a factor of 4 to 14.7 percent in April, higher than any month since the Great Depression.

According to my calculations, 27.5 percent of workers were unemployed or underemployed in April. That is over one-quarter of the workforce.

Small businesses have been hit very hard by the shutdown orders and by decreased demand for their goods and services. Many small businesses operate with low-profit margins, making it difficult to absorb a large decline in revenue sustained over several months. Cash buffers can allow business operations to continue in the absence of revenue, but half of small businesses have fewer than 15 days of cash liquidity, and only 40 percent of small businesses have more than 3 weeks of a cash buffer.

A new Census Bureau survey that the Chairman referred to in his opening remarks of small businesses shows that the expectations of small business owners, about the length of time it will take to fully recover are souring, with the share of owners who expected to take longer than 6 months to return to normal increasing significantly between April and May.

The survey asks respondents in the last week if the business had a change in the number of paid employees. The results here are actually somewhat encouraging. In late April, about a quarter of firms decreased employment in the previous week. By mid-May, that had fallen to 16 percent. This is trending in the right direction. If businesses are increasing their payrolls at a greater rate, you would expect their revenues to be improving as well. The Census survey shows exactly this. The share of firms reporting revenue declines in the previous week dropped by 21 percent between late April and mid-May, falling to 60 percent from 75 percent.

What is the overall takeaway here? I draw two conclusions. First of all, businesses is both dire and improving. A situation in which revenue and employment declines are this widespread represents a national emergency. At the same time, the small business economy has made considerable strides in the past few weeks.

Congress enacted the Paycheck Protection Program as part of the CARES Act to keep workers attached to their employers and to ensure small business continuity during the shutdown.

As of May 23rd, 5,500 lenders have made nearly 4.4 million PPP loans for a total of $511 billion lent. The average loan size was $116,000. Over 99 percent of PPP loans were for less than $2 million, and 79 percent were for less than $100,000. Of the total dollars lent in the program, 79 percent were lent as part of loans of less than $2 million. As of mid-May, nearly 70 percent of small businesses surveyed were receiving financial assistance from PPP, according to the new Census survey.

The ultimate test of PPP's effectiveness will be if it is shown to mitigate small business closure and support employment. It is too early to tell whether PPP is having these effects. The magnitude of lending and the take-up rate among small businesses suggests that it is well positioned to do so and suggest it is succeeding. Indeed, PPP will likely be the main and the most effective measure that Congress has passed to address the pandemic. Between the CARES Act and the subsequent Paycheck Protection Program and Health Care Enhancement Act, PPP has become the largest component of Congress' response to the pandemic recession.

Unfortunately, PPP's success has been held back by the Treasury Department's implementation. For example, the 75 percent rule, which is not in the statute, fully is a mistake. It lessens the program's effectiveness and allows the program to benefit some small businesses over others in an arbitrary fashion. The Treasury Department justifies the rule by arguing that it keeps the focus of PPP on workers, but a business that cannot pay its rent also cannot continue paying its workers.

Small businesses could also turn to the Federal Reserve's Main Street Lending Program, which is open to businesses with up to 15,000 employees. The Treasury Department is required to approve the parameters of the program, and Congress appropriated $454 billion to Treasury as part of the CARES Act to support Fed lending under this program and under several other lending programs.

Here again, Treasury's implementation is hurting small business. The Treasury is not taking enough risk with that capital.

Under the parameters Treasury set for the Main Street program, it may discourage borrowers and lenders from participating in the Main Street program at all.

The economy will need fiscal support for quite some time. This summer and fall could witness historic annualized rates of quarterly economic growth and percentage declines in the unemployment rate, but it will take many more months of strong economic performance to return to where the economy as in February of this year.

The Congressional Budget Office, for example, forecasts very strong economic growth in the second half of 2020, beginning in July, but CBO also expects the unemployment rate will be over 10 percent in the fourth quarter of 2020 and 8.6 percent in the fourth quarter of 2021.

Small businesses will need support from Congress, in particular. The goal of this support should be to preserve the productive capacity of the small business sector in large part by ensuring small business continuity and preserving the ecosystem of knowledge and relationships that drive productivity. In this way, the needs of small businesses are similar to what they were in mid-March when Congress enacted PPP.

At the same time, public policy should avoid impeding the process of sectoral reallocation in which some industries shrink and others expand and in which workers move across industries. Public policy should allow small businesses to reorganize the way they produce goods and services to take into account changes in preferences, logistics, and supply chains. This represents a different challenge than Congress addressed when creating PPP. With PPP set to expire soon, the need to address that challenge is urgent.

Thank you.

[The prepared statement of Mr. Strain follows:]

Statement before the Senate Committee on Small Business and Entrepreneurship
On "Perspectives from Main Street: Covid-19's Impact on Small Business"

Covid-19's Impact on Small Business

Deep, Sudden, and Lingering

Michael R. Strain
Director of Economic Policy Studies
Arthur F. Burns Scholar in Political Economy

June 3, 2020

Chairman Rubio, Senator Cardin, and Members of the Committee, thank you for the opportunity to appear before you today to discuss Covid-19's impact on small business. It is an honor.

THE ECONOMIC IMPACT OF COVID-19

To slow the spread of the novel coronavirus, states issued shelter-in-place orders beginning in mid-March that brought a large share of economic activity to a sudden halt. These orders, combined with the concern many Americans have about becoming infected by engaging in normal economic activity, have devastated the economy. The pandemic has brought the longest economic expansion since World War II to a conclusion and caused an acute deterioration in the labor market.

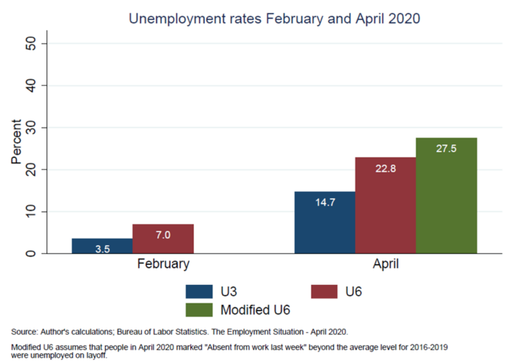
Consumer spending, which accounts for about two-thirds of gross domestic product (GDP), fell in March as a result of reduced demand for goods and services and businesses limiting their operations in the second half of that month. The Bureau of Economic Analysis estimates that pandemic lockdowns have reduced consumer spending by 27.8 percent, with restaurant sales dropping by 70 percent and accommodations sales dropping by 80 percent.[1] My calculations suggest that GDP as a whole has been reduced by roughly $80 billion per week because of the pandemic. The ultimate effects of the pandemic on these measures are still very uncertain, as data on spending and incomes for this spring are still incomplete.

Labor market data are more timely, and demonstrate both the suddenness of the downturn and its depths. The labor force shrunk by 8.1 million workers between February and

[1] Abe C. Dunn, Kyle K. Hood, and Alexander Driessen, "Measuring the Effects of the COVID-19 Pandemic on Consumer Spending Using Card Transaction Data," Bureau of Economic Analysis Working Paper Series, WP2020-5, April 24, 2020.

April, and household employment fell by 25.4 million. The unemployment rate in February stood at 3.5 percent. In two months, the rate increased by a factor of four to 14.7 percent.

This statistic alone highlights both the speed and magnitude of the decline. To understand the speed of the decline, compare a fourfold increase in two months in the unemployment rate to what happened during the Great Recession, when it took two years for the unemployment rate to double from 5 percent when the recession began in December 2007 to its peak of 10 percent in October 2009. As for the magnitude, unemployment in April was higher than in any month since the Great Depression.



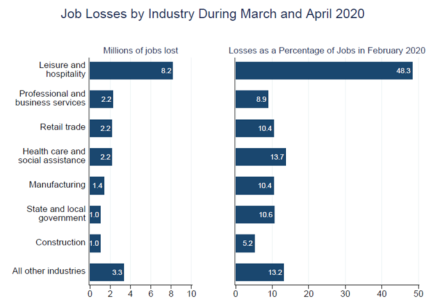
Broader measures of unemployment tell the same story. The broadest measure produced by the Bureau of Labor Statistics (BLS) includes unemployed workers, people who are neither working nor looking for work but who want a job and have been in the workforce recently, and people who want full-time work but had to settle for part-time work. By this measure, 22.8 percent of the workforce was unemployed in April, up from 7 percent in February. I have calculated a modified version of this broader rate, including workers who likely should have been classified as unemployed but who were incorrectly classified as absent from work. By this measure, 27.5 percent of workers are unemployed or underemployed — over one-quarter of the workforce.

COVID-19'S IMPACT ON SMALL BUSINESS

Small businesses have been hit very hard by the shutdown orders and decreased demand due to concern about the coronavirus. Many small businesses operate with low profit margins, making it difficult to absorb a large decline in revenue sustained over several months. Cash buffers can allow business operations to continue in the absence of revenue. Research by the J.P. Morgan Chase Institute shows that 50 percent of small businesses have fewer than 15 days of cash liquidity, and only 40 percent of small businesses had more than three weeks of a cash buffer.[2]

Small businesses in the services sector have likely been harder hit than manufacturing firms because they face a permanent revenue loss from a long shutdown. Manufacturing companies will suffer due to a decline in the demand for goods and disruptions in supply chains. But unlike manufacturing firms, which may return to partial operations with a partial backlog of orders, services-sector losses will (mostly) never be made up. For example, households will not eat twice as many meals at restaurants in the month of July because they could not eat any meals out in the month of April.

[2] Diana Farrell, Chris Wheat, and Chi Mac, "A Cash Flow Perspective on the Small Business Sector," J.P. Morgan Chase Institute, May 2020.

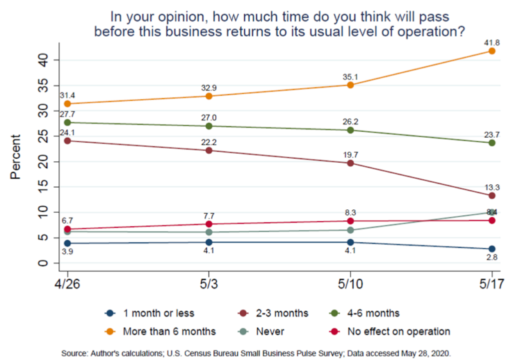


Source: Author's calculations; Bureau of Labor Statistics. The Employment Situation - April 2020.

The chart above breaks down job losses by industry, using data from BLS's Current Employment Statistics Survey. These data are for the labor market as a whole, and not only small employers. They highlight that sectors with a large degree of in-person interaction and with many small employers have been hardest hit by the pandemic. For example, the leisure and hospitality sector lost 48.3 percent of its February employment in March and April, and retail lost 13.7 percent.

To understand more of the pandemic's impact on small businesses specifically, I turn to the new Small Business Pulse Survey from the Census Bureau, a weekly email survey designed to provide information on the challenges facing small businesses due to the Covid-19 pandemic. The survey began on April 26, and is scheduled to run through June 27, providing nearly real-time updates on the changing condition of small businesses across states and industries.

The target population for the survey is nonfarm, single-location businesses with at least $1,000 in earnings and between 1 and 499 employees. The survey is designed to be representative of this population of small businesses, with the exception of a few industries, including agriculture, railroads, religious organizations, funds and trusts, and certain government entities.[3] The survey contains questions about overall well-being, changes to operations and finances, and other challenges resulting from restricted economic activity, as well as expectations for when operations will return to normal.



The survey shows that the expectations of small business owners are souring, with the share of owners who expect it to take longer than six months for a return to normal increasing significantly, as the chart above shows. Correspondingly, respondents are much less likely to report a return to normal in less than three months.

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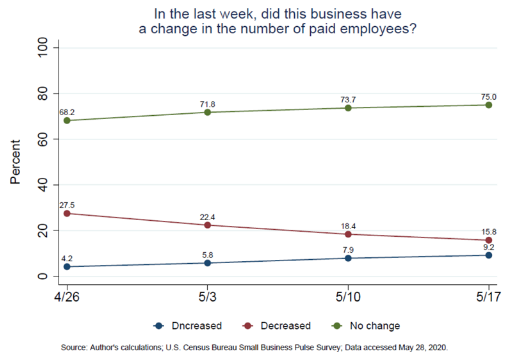
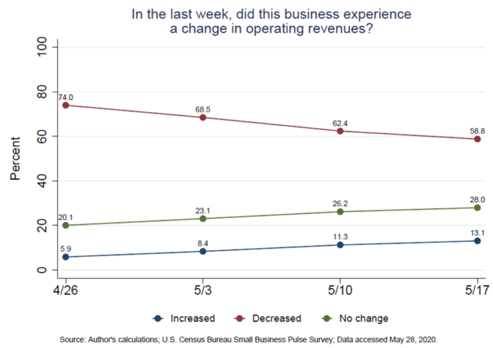
[3] The Census Bureau used administrative records from the April 2020 Business Register to identify roughly 885,000 active businesses with a single email address that met these criteria. These businesses were divided into nine groups with similar size and geographic characteristics, and roughly 98,000 businesses receive the survey each week. This coverage is designed to produce detailed weekly data by industry and state and data for the 50 largest metropolitan statistical areas.



The survey asks respondents if, in the last week, the business had a change in the number of paid employees. The results are somewhat encouraging. In late April, 27.5 percent of firms decreased employment in the last week, and only 4.2 percent increased employment. In mid-May, 15.8 percent decreased employment, and 9.2 percent increased the size of the workforce. These are trending in the right direction.

Trends over the past month in hours worked by paid employees corresponds to employment trends. Hours increased for 11.9 percent of businesses in mid-May, up from 5.6 percent in late April. One-third of businesses reduced hours in mid-May in the last week, down from half in late April.



If businesses are increasing their payrolls at greater rates (and decreasing them with less frequency), you would expect their revenues to be improving. The Census survey shows exactly this. By the middle of May, the share of businesses reporting revenue increases in the last week more than doubled from late April, rising to 13.1 percent of firms. The share of firms reporting revenue declines in the previous week dropped by 21 percent over this period, falling to 58.8 percent from 74 percent.

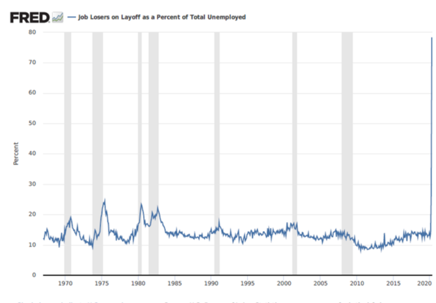
What is the overall takeaway? I draw two conclusions: The picture is both dire and improving. A situation in which revenue and employment declines are this widespread represents a national emergency, even though the small business economy is making considerable strides in recent weeks.

THE PANDEMIC RECESSION IS NOT A NORMAL DOWNTURN

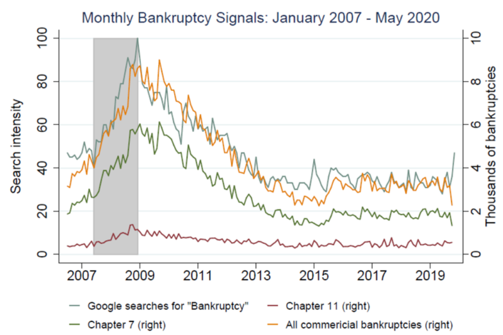
Recent recessions have been caused by imbalances in the economy — e.g., bubbles in the housing and tech sectors and excessive leverage in the financial system. Those recessions were followed by slow recoveries in part because the underlying structural problems with the economy needed to be corrected.

In contrast, the economy was in great shape as recently as February of this year. The goal of social distancing was to freeze the economy in place to slow the spread of the virus, and then to "turn" the economy "back on" this summer. Since the economy was in great shape when it was frozen, the recovery from the freeze should be relatively rapid.

This is, of course, a simplification. But one indication that this may be a reasonable simplification is the widespread use of temporary layoffs by firms. The chart below shows unemployed workers on temporary layoff as a share of all unemployed workers. The chart demonstrates the unusual nature of the current recession.



Things may not be as simple as the "turn off the switch, turn on the switch" model suggests. Although states have partially reopened, it is not clear how quickly their economies will return to normal if people are concerned about contracting the virus, or if the virus flairs up again in the fall. To the extent that people's preferences have changed — e.g., if fewer people prefer to go to dinner and a movie and more people prefer to have takeout delivered and stream a movie at home — then some industries will shrink and some will expand relative to where they were in February. This process would require workers to change industries, as well. The reallocation process these changes would require would take time, and many unemployed workers currently on temporary layoff may never return to their previous employer. Still, there is reason for cautious optimism that the labor market recovery from the pandemic will be quicker than has typically been the case.

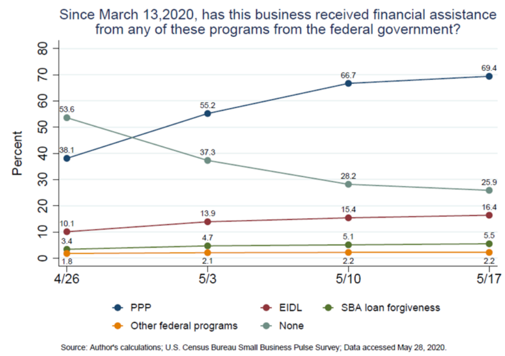


Source: Author's calculations; American Bankruptcy Institute. May 2012 and April 2020 Bankruptcy Statistics - Commercial Filings.
Search data from Google Trends accessed May 30, 2020.
Shaded area indicates recession dates.

A major concern, discussed above, is that firms, particularly small businesses, would not be able to weather the shutdown. Bankruptcy data so far do not show that businesses are closing, but filing could be a lagging indicator during this rapidly changing situation.

THE PAYCHECK PROTECTION PROGRAM

Congress enacted the Paycheck Protection Program (PPP) as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act to keep workers attached to their employers and to ensure small business continuity during the shutdown. Under PPP, small businesses take out a loan from a commercial bank for up to 2.5 times average monthly payroll costs, not to exceed $10 million. The amount of the loan spent on payroll costs (including benefits), rent, mortgage interest, and utilities during the eight-week period after the loan is originated converts to a grant — i.e., the loan is forgiven — provided that the business does not lay off workers or substantially reduce their pay. In addition, a requirement imposed by the Treasury Department and Small Businesses Administration when implementing the program requires that 75 percent of any amount of the loan that is forgiven be spent on payroll.[4]



As of May 23, 5,511 lenders have made nearly 4.4 million PPP loans totaling $511 billion. The average loan size was $116,000. Over 99 percent of PPP loans were for less than $2 million, and 79 percent were for less than $100,000. Of the total dollars lent in the program, 78.6 percent were lent as part of loans of less than $2 million.[5] As of mid-May, nearly 70 percent of small businesses surveyed were receiving financial assistance from PPP.

The ultimate test of PPP's effectiveness will be if it is shown to mitigate small business closure and support employment. It is too early to tell whether PPP is having these effects. But the magnitude of lending and the take-up rate among small businesses suggest that it is well positioned to do so. Indeed, PPP will likely be the main and most effective measure Congress has passed to address the pandemic. Between the CARES Act and the subsequent Paycheck

[4] Michael R. Strain, "The Paycheck Protection Program: An Introduction," American Enterprise Institute, April 1, 2020. R. Glenn Hubbard and Michael R. Strain, "Building the Car While Driving It: Suggestions for Reforming the Paycheck Protection Program," American Enterprise Institute, April 15, 2020.

[5] US Small Business Administration, "Paycheck Protection Program (PPP) Report: Approvals Through 5/23/2020."

Protection Program and Health Care Enhancement Act, PPP has become the largest component of Congress' response to the pandemic recession in dollar terms to date.

Unfortunately, PPP's success has been held back by Treasury's/SBA's implementation. Treasury has not done enough to convince lenders that they would be held harmless if borrowers misrepresent themselves on their applications, despite the statute's clear intent. This has led banks to focus more lending on existing customers, potentially leaving behind many of the true mom-and-pop shops that Congress likely had in mind when creating PPP. Confusion about which borrowers Treasury would seek to audit and the conditions that would determine audits have led some businesses to return PPP loans and have discouraged other businesses from applying to the program at all. Lending under the program has slowed dramatically as a consequence of this confusion.

The 75 percent rule, which is not in the statute, is a mistake. It lessens the program's effectiveness and allows the program to benefit some small businesses over others in an arbitrary fashion. For example, a small business in a high-rent city will benefit less from PPP than businesses with lower rent payments as a share of overall expenses. Treasury justifies the rule by arguing that it keeps the focus of PPP on workers. But a business that cannot pay its rent will not be able to continue paying its workers. In a report issued last month, SBA's Inspector General concluded that the 75 percent rule "did not align with the allowable use requirements for PPP loans" in the statute.[6]

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[6] US Small Business Administration, Office of the Inspector General, "Flash Report: Small Business Administration's Implementation of the Paycheck Protection Program Requirements," May 8, 2020.

THE MAIN STREET LENDING PROGRAM

Small businesses could also turn to the Federal Reserve's Main Street Lending Program, which is open to businesses with up to 15,000 employees or 2019 annual revenues of less than $5 billion. The Treasury Department is required to approve the parameters of this program, and Congress appropriated $454 billion to Treasury as part of the CARES Act to support Fed lending under this program and several other lending programs.[7]

Treasury is not taking enough risk with that capital. Treasury has allocated $75 billion of the CARES Act's appropriation to support $600 billion in Fed lending through Main Street facilities. A 13 percent loss rate implies that Treasury intends to avoid capital losses. But if economic recovery is the goal and solvency is the problem, losses are inevitable.

Under the terms Treasury put in place for the Main Street facilities, banks must hold 5–15 percent of loans, selling the remainder to the Fed. By encouraging banks to use normal credit standards, Treasury may discourage borrowers and lenders from participating in the programs at all. It is not clear which borrowers would qualify for a loan under the Main Street facilities that would not qualify for a standard loan. Indeed, the Congressional Oversight Commission found that barely any lending under Fed facilities supported by the CARES Act appropriation has occurred.[8]

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[7] The Main Street Lending Program operates through three facilities: the Main Street New Loan Facility, the Main Street Priority Loan Facility, and the Main Street Expanded Loan Facility. Other programs backed by the CARES Act appropriation to Treasury to support Fed lending include corporate credit and municipal lending facilities.

[8] Congressional Oversight Commission, "Questions About the CARES Act's $500 Billion Emergency Economic Stabilization Funds," The First Report of the Congressional Oversight Commission, May 18, 2020.

CONCLUSION: THE NEED FOR CONTINUED SUPPORT

The economy will need fiscal policy support for quite some time. This summer and fall could witness historic annualized rates of quarterly economic growth and percentage declines in the unemployment rate, but it will take many more months of strong economic performance to return to where the economy was in February of this year. The Congressional Budget Office (CBO), for example, forecasts very strong economic growth in the second half of 2020, beginning in July. But CBO expects the unemployment rate to be 11.5 percent in the fourth quarter of 2020 and 8.6 percent in the fourth quarter of 2021.[9]

Small businesses will need support from Congress, in particular. The goal of this support should be to preserve the productive capacity of the small business sector, in large part by ensuring small business continuity and preserving the ecosystem of knowledge and relationships that drive productivity. In this way, the needs of small businesses are similar to what they were in mid-March.

At the same time, public policy should avoid impeding the process of sectoral reallocation — in which some industries shrink and others expand, and workers move across industries — and should allow small businesses to reorganize the way they produce goods and services to take into account changes in preferences, logistics, and supply chains. This represents a different challenge than Congress addressed when creating PPP. With PPP set to expire soon, the need to address that challenge is urgent.

[9] Congressional Budget Office, "Interim Economic Projections for 2020 and 2021," May 2020.

Chairman RUBIO. Thank you.

Mr. Rudolph, thank you for being with us. I see you are on the screen. Thank you. You are on.

STATEMENT OF NICK RUDOLPH, BALTIMORE REGIONAL DIRECTOR, MARYLAND CAPITAL ENTERPRISES, INC.

Mr. RUDOLPH. Thank you very much. Thank you, Chairman Rubio, Ranking Member Cardin, and the distinguished members of the Committee for inviting me to testify.

As said, my name is Nick Rudolph, and I am the Baltimore Regional Director of Maryland Capital Enterprises, a small CDFI serving Maryland. We provide technical assistance, trainings, and access to capital for entrepreneurs in Maryland, and now thanks in part to Senator Cardin's advocacy for additional Women's Business Centers, we are also an SBA Women's Business Center, or WBC.

I am here today to share the experiences of our small business clients during the COVID–19 pandemic and discuss ways future aid packages could provide the additional resources America's smallest businesses need to survive.

Unsurprisingly, we have seen an astounding increase in requests for services because of the pandemic. Increasingly, the clients are approaching us with greater despair and fear in their future stability.

Since WBCs provide services specifically to women and other underserved entrepreneurs, we have been able to ascertain what a typical client needs moving forward.

In addition to securing emergency loans and grants, they are requesting funding to retrofit their stores for virus mitigation, rental assistance, and guidance or training on surviving in a post-COVID economy with a focus on opening and operating safely and resources to provide health care to owners and employees. Our clients are resilient, and they clearly want and are willing to adapt, but they need support to do so.

I think the experience of a woman-owned comic book shop in Baltimore is typical of many of our clients. The current owner of the store purchased the existing business in 2019 and spent a year renovating and building a client base. She has launched a successful popular summer camp gaming program, has nightly events, and has partnered with other local businesses. But when it became clear that nonessential businesses would be closed, she reached out for assistance, first for the PPP program where she realized she was not eligible because she did not have payroll. Hers is a true mom-and-pop shop. Her and her husband were lucky to be able to save, knowing that they would not be paying themselves in the first year as they expanded.

So, instead, she decided to focus on the EIDL loan and grant program. She applied in March and received confirmation that the application was accepted and under review but heard nothing until mid-May when, thankfully, she received a $40,000 loan, but because she had no payroll, none of it was a grant portion.

As soon as she heard about the approval, the closing process was almost immediate. She very much appreciates it.

While awaiting a decision, she was able to negotiate with her landlord for partially reduced rent for 3 months, but she will have to pay that difference eventually. She also worked with local officials to allow for contactless delivery of comic books so there would be some revenue during this time. However, she told me that she is working three times as many hours as usual for about a quarter of the revenue, and it is not sustainable financially, physically, or mentally.

She was using some of her loan funds to help build out an online platform and expand her gaming business since that is what customers are requesting, and she would be able to spend more, but she feels she needs to horde it because she fears that there is no more assistance coming. And she will have to pay back her current and back rent.

When I asked her what microenterprises like hers needs to survive, she responded that rent relief is key because once she is able to reopen, she is expecting less revenue because of a possible slowdown and the fact that people would just feel less comfortable shopping in person. Her rent is soon returning to normal, and without additional assistance, her business will likely fail, leaving her jobless and in debt. I think her story underscores the need for flexible and easily available resources for businesses with 10 or fewer employees.

The EIDL program is particularly impactful for these businesses because it has low interest, long terms, eased credit requirements, and the fact that collateral is not required.

In a perfect world, all approved applicants would receive the full grant portion regardless of number of employees, and additional products like EIDL will be key in the short-term success in the coming months as well as the next 3 to 5 years, as our small businesses continue to work to stabilize themselves and adapt to a post-COVID environment.

These entrepreneurs are going to be hurt by a likely downturn. Their credit is going to be impacted, and lowering housing values may eliminate what collateral they have.

Now, MCE is not a PPP lender, but we have worked with a number of PPP clients. Again, the PPP program is a great product, but understandably, there are some things that could be changed to make it more friendly to microentrepreneurs.

It was very difficult to find banks that would service loans that the client did not have an existing lending relationship with the bank. Many of the businesses were afraid to apply in the first place because they were confused by the documentation needed for forgiveness, and they were just not in a position to take on additional debt. There was great confusion about what was needed to apply and who was eligible, and they regularly expressed concerns about the time frame for spending the funds, fearing that they would not be able to open in time.

In fact, two of our clients who were approved for the loans decided to return the funds out of this fear. Perhaps out-of-the-box ideas like making the first $100,000 of any PPP loan or grant or accepting the signed assurances of compliance as proof of forgiveness for smaller borrowers might be some of these concerns.

It is very important that both PPP and EIDL products are available and continue to be available. Funding the Small Business Relief Program that funnels funding to states is a key to ensuring all small businesses have access to the resources they require to reopen because things are different in different states, and localized support is the way to get that to the businesses.

Additionally, funding for technical assistance for CDFIs and other service providers will be critical to overcoming challenges because of an increased need for services from existing businesses and entrepreneurs who see a niche that they can fill. One thing that is an imperative to allow CDFIs to focus on our work with our clients is that we assume no additional servicing the loans from future small business assistance packages because we expect a number of these will default due to a slowing economy.

In conclusion, it is our small business entrepreneurs who will provide innovation, solutions, and what is necessary for all of us to succeed in a post-COVID economy and reality. We need you to provide us with the tools and guidance to support these businesses for this once-in-a-lifetime challenge. The hard truth is that there is no easy, perfect, or one-size-fits-all solutions, but one thing is for certain. It is going to be significantly expensive, but there is no way America can afford to lose the small business community that is so vital to our economy, local identities, and American way of life.

The resources provided by the CARES Act and guidance, communication, and assistance from the SBA have been instrumental in allowing us to serve our clients at this time, and while the rollout has not been perfect, it is more than understandable because we needed to get those monies out on the street quickly, and full policies and procedures just could not have been created.

We are grateful for the hard work that this Committee and the SBA is doing during this scary and confusing time, and we look forward to working with you to solve these problems.

I would like to thank you for this opportunity to share my experience, and I will do my best to answer the questions you have. Thank you.

[The prepared statement of Mr. Rudolph follows:]

Nicholas Rudolph, Baltimore Regional Director, Maryland Capital Enterprises, Inc.

Thank you Chairman Rubio, Ranking Member Cardin and members of the committee for inviting me to testify today. My name is Nick Rudolph and I am the Baltimore Regional Director for Maryland Capital Enterprises, Inc., (MCE) a small Community Development Financial Institution (CDFI) serving Maryland's Eastern Shore and Baltimore regions. Since 1998, we have provided guidance, technical assistance, classroom and virtual trainings and access to capital for entrepreneurs in Maryland. And now, thanks in part to Senator Cardin's advocacy for additional Women's Business Centers in Maryland, we also are an SBA Women's Business Center (WBC).

I am here today to share the experience of our small business clients during the COVID-19 pandemic and discuss ways future aid packages could provide the additional resources America's smallest businesses need to survive. Since we are a micro-lender working with the smallest of small businesses, most of the people we serve don't have the savings to weather a slowdown nor the time to navigate complicated instructions to receive resources and funding to help them react, recover and adapt to a potential new economy. As you are aware, the pandemic and resulting economic slowdown have hit our smallest businesses the hardest. Our clients tend to be from underserved rural and urban communities, and most are Low to Moderate Income Individuals (LMI).

Unsurprisingly, we have seen an astounding increase in requests for services because of the pandemic. Increasingly, the clients are approaching us with greater despair and fear for their future stability. Most entrepreneurs we speak to are seeking funding to help them survive while their businesses are either closed or seeing a major decrease in revenue. For instance, our WBC's requests for services has more than doubled in the last two months. Since WBCs provide services specifically to women and other underserved entrepreneurs, we have been able to ascertain what a typical client needs moving forward. In addition to emergency loans and grants, they are requesting funding to retrofit their stores for virus mitigation, rent assistance and guidance or training on surviving in a post COVID economy with a focus on opening and operating safely and resources to provide health care to owners and employees. Our clients are resilient. They clearly want and are willing to adapt but they need support and resources to do so.

I think that the experience of a woman-owned comic book and games shop in Baltimore is typical of many of our clients. The current owner of the store purchased the existing business in March 2019 and spent a year renovating, building a customer base, and growing the store's gaming business. She had successfully launched a popular summer camp gaming program, almost nightly evening events for all ages and a partnership with a historic theater across the street that cross-promoted her shop when debuting new action movies. MCE provided the initial funding to purchase and renovate the store.

When it became clear that non-essential businesses would be closed, she reached out for assistance. We assisted her with her EIDL application and provided guidance on PPP. She discovered that her business was not eligible because it did not have payroll. Hers is a true "Mom and Pop" shop, she and her husband saved knowing that they would not be paying themselves for the first year as they expanded. This is an experience shared by many of the smallest Main Street businesses that are run by families. Because she was ineligible for PPP, she focused on EIDL and applied in early March. She received confirmation that application was accepted and under review and then heard nothing until May 19th, when she learned she received a $40,000 loan with no grant portion because there are no employees. Once she heard she was approved and filled out the closing documents, she was immediately funded.

While awaiting a decision, she was able to negotiate with her landlord for partially reduced rent for three months. She will have to pay the difference eventually. While she is lucky to have a landlord that is somewhat flexible on rent, many businesses are not. She worked with local officials to allow for contactless delivery of comic books so there would be some revenue. She told me that she is working three times as many hours as usual for about a quarter of the revenue and that it is not sustainable financially, physically, or mentally. She is using some of her EIDL loan to help build an online platform and expand her gaming business since that is what customers are requesting. She would be able to spend more of the funds to retrofit her retail business in an increasingly contactless world, but feels she needs to horde most of it because she fears there will be no more assistance coming and she will not be able to pay her current or back rent. When asked what micro-enterprises like hers needs to survive, she responded rent relief is key because once she is able to reopen she expects there to be less revenue because of a possible recession and the fact that people will be less comfortable shopping in person. Her rent will soon return to normal and she must make her landlord whole, without additional assistance her business will likely fail leaving her jobless and in debt. I think her story underscores the need for flexible and easily available resources for businesses with ten or fewer employees.

The EIDL loan is a particularly impactful product for these businesses because of its low interest, long terms, eased credit requirements and the fact that collateral is not required. In a perfect world, all approved applicants would receive the full grant portion regardless of number of employees. Additional products like EIDL will be key to short-term success in the coming months, as well as three to five years in the future as small businesses continue to work to stabilize themselves and adapt to a post-COVID climate. Entrepreneurs will be hurt by the likely economic downturn, which will impact their credit. Housing values may go down, eliminating what collateral they may have had. It is up to us to ensure these businesses survive.

While MCE has not serviced PPP loans, we have provided guidance and assistance to many entrepreneurs interested in applying for the funds. Again, while PPP is great product there are, understandably, some things that could be changed to make it more friendly to micro-enterprises.

It was difficult to find banks that would service the loans if the client did not have an existing lending relationship with the bank. We worked with businesses who banked with an institution for over a decade but were unable to apply because they only had accounts and not loans with the bank. Many businesses were afraid to apply because they were confused by the documentation needed for forgiveness and they were not in a position to take on additional debt. There was great confusion about what was needed to apply and who was eligible and, at times, even we as professional lenders with decades of experience were unsure of the answers. They regularly express concerns with the timeframe to spend the funds, fearing that they would not be able to open in time to use the funds. Those who have received funds fear that incorrectly completing one form will result in them being denied forgiveness which would devastate the business. In fact, two clients we worked with decided to return the funds out of this fear. Perhaps outside of the box ideas like making the first $50,000 of any PPP loan a grant or accepting signed assurances of compliance as proof for forgiveness from smaller borrowers would give these “Mom and Pop” businesses the confidence to take advantage of this amazing program. Allowing them three to six months from the date they reopen would mitigate concern as well. For some of our businesses, like the comic book store I discussed with you, PPP was not an option because they take owners draws instead of paying themselves as W-2 or 1099 employees and even if they were allowed, the eligible amount would too small to be worth the time and effort. Which is why it is so important that both the PPP and EIDL are available.

Funding the Small Business Relief Program that funnels funding to states is key to ensuring that all small businesses have access to the resources they require because different areas have unique needs that are better met with localized support. Additionally, funding for Technical Assistance for CDFIs and other service providers will be critical to overcoming challenges because of an increased need for services from existing businesses and entrepreneurs who see a niche they can fill. One thing that is imperative to allow CDFIs to focus on our work directly with clients is ensuring that no additional risk is taken on by CDFIs servicing any loans from future small business assistance packages because we expect more businesses will default due to a slowing economy.

It is our small business entrepreneurs who will provide the innovative solutions necessary for all of us to succeed in a post COVID-19 economy and reality, and we need you to provide us with tools to guide and support them through this once in a lifetime challenge. The hard truth is that there is no easy, perfect or one size fits all solution to this. One thing is for certain, it will be a significant expense but there is no way America can afford to lose the small business community that is so vital to our economy, local identities and American way of life. The resources provided by the CARES Acts and guidance, communication and assistance of the SBA have been instrumental in allowing us to serve our clients. While the roll out has not been perfect, it is more than understandable because of need to get the resources into the hands of small businesses quickly was so great that full policies and procedures could not be created first. We are more than grateful for the hard work that you and the SBA are doing in these scary, confusing, and uncertain times. We look forward to working with you and SBA in the future to continue supporting small business.

I would like to thank you for the opportunity to share my experiences with your committee. It is an honor. I will do my best to respond to any questions that you have.

Thank you,

Nick Rudolph, Baltimore Regional Director
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Chairman RUBIO. Thank you, and I am going to defer my opening questions until the end. And I am going to defer them to Senator Scott because I know he needs to run.

Senator Scott, are you there?

[No response.]

All right. He does not have his camera on. That probably means he is still wearing shorts. When my camera is not on, that is what it means.

All right. Do we know if he is on?

The CLERK. He has not turned on his video yet.

Chairman RUBIO. Or his audio. All right. Well, then I will just turn it over to the Ranking Member, Senator Cardin.

Senator CARDIN. Well, thank you, Mr. Chairman, and let me thank all of our witnesses for their testimony. I found it to be extremely helpful.

Mr. Shamess, let me just comment about your creativity on the flag issue. That is exactly what small businesses do. They figure out a better way to deal with the realities, so congratulations on that.

I also want to make the observation about why we support giving additional flexibility in regards to the current program, that is, 8 weeks to 24 weeks and flexibility on the use of funds, because you raise a very valid point. And that is small businesses are very diverse. They have different needs, and we need to give that type of flexibility.

But I would argue that there are many small businesses that cannot survive with just 8 weeks of help. You have small businesses whose revenues have been very much damaged, restaurants that depend upon in-service serving meals that cannot do that, catering establishments that have not been able to be open, entertainment facilities that cannot operate, museums that cannot operate.

So as we look at what comes next, I am interested on how we are going to be able to target it. So I want to ask Ms. Evans a question, if I might. I will start with Ms. Evans, and that is, first of all, thank you for your testimony. Thank you for the list of areas that we could help expand in order to provide meaningful help to underserved communities. There are a lot of challenges that we have in our society, as we have seen play out during this past week, but for over a long period of time. If we are going to deal with the disparities of wealth, entrepreneurship is one of the key areas that we can really make advancement. So serving underserved communities is particularly helpful.

I noticed that you mentioned that the next round, we should look at smaller small businesses. Can you just tell me why if we target it to the smaller small businesses, it is a more effective way to get help to the underserved communities?

Ms. EVANS. Thank you, Senator Cardin, for the question.

We are recommending that you target the businesses that are 10 employees or below because these are the businesses that, number one, were hit the hardest. They were also the businesses that are referenced in page 30 of the legislation. Most business owners that are Black, Brown, Native, women, all of that group of businesses, even rural, that you prioritize tend to be small business, the smallest of businesses, and so if we really are intentional about trying to prioritize the benefits to this segment of business owners, we really need to make sure that we have channeled the funds directly to businesses with 10 or fewer. They make up 96—over 90 percent of these businesses really are 10 employees or less, and so we think this is an important piece in, again, fulfilling what your intentions were originally in the CARES Act.

Senator CARDIN. I thank you for that, which is a segue to Mr. Rudolph, if I might. When you were referring to the fact that the dollar amount of the EIDL loans at $1,000 per employees, which is not in the statute—that is how the SBA administered the original grants under EIDL—and the fact that the business that you are referring to did not get their funds until mid-May, which is a long time to wait for the capital that you need, and then did not get any grant funds at all, I assume because of limitations per employee—they did not have employees—can you just comment as to what impact it has had that the EIDL program has not been more available and that they have limited the grant program to $1,000 per worker?

Mr. RUDOLPH. Absolutely. Thank you for the question.

So to carry on with what Ms. Evans said, a lot of our smallest businesses and the businesses that need the most are 10 employees and less and often are sort of no employees. It is just mom and pop, and so that $10,000 of forgivable grant loan money would have given more businesses the confidence to apply because they would have this debt going on, and it would also sort of give them just more confidence moving forward that we were here to support them. Of course, they need the money to open and to pay their employees.

As far as the difficulty getting grants and loans, really what it is is that a lot of people sort of put the applications out into the ether, did not really understand what was going on, and had already accepted other grants by the time they heard about their EIDL. And so they were not able to get those funds.

Senator CARDIN. Thank you.

Thank you, Mr. Chairman.

Chairman RUBIO. Senator Young.

Senator YOUNG. Thank you, Chairman.

Clearly, the United States remains the global leader in so many fronts. We are facing the greatest economic challenge, however, certainly in my lifetime, arguably in many generations, and I am proud of how Congress responded in a bipartisan fashion, putting together this Paycheck Protection Program in short order.

At the time of passage, we anticipated PPP to be a bridge to the back end of this current public health situation. We had all hoped that this would be a short-term economic challenge for the Nation, but we are discovering that this virus will be with us. And we are going to need continued attention to our businesses, our not-for-profits, and it is likely they will require some form of assistance for assessing exactly how to scope that assistance right now.

We do know that sales remain low. As I travel around the State of Indiana, that is clearly the case. Consumer spending is way down in an economy that is built for better or for worse on consumer spending, and as our various states continue their process of reopening, we are going to have to consider some sorts of programs.

I have put forward a solution that I think is viable, and I have received very positive feedback from boutiques, hardest-hit restaurants, gyms, and other such enterprises, many of which were not even able to open up during the 8-week period in which they were asked to deploy the Paycheck Protection monies for forgiveness.

So I am glad we are holding this hearing. I am glad we are looking at this. The RESTART Act in addition to extending the Paycheck Protection Program time for deployment of funds, which I think there is broad bipartisan agreement needs to happen, would provide flexible loans, up to 6 months in duration, to pay for payroll expenditures, ongoing fixed operating expenses, and it would be offered to profitable and not-for-profit businesses alike that employ 5,000 employees or less.

Loan amounts would be based on gross revenue, and forgiveness would be based on revenue loss. So we would not have a situation where companies were taking advantage of these loans and they really did not need them.

So I feel like what Senator Bennet and I put together is a responsible and responsive approach to the needs of our current businesses. We will have to see as we get more clarity in the coming month or so exactly what is needed, but I really hope my colleagues on both sides of the aisle will give strong consideration to this measure.

Dr. Strain, in your testimony, you acknowledge the benefits of PPP but also the man unintended issues. Can you elaborate on the importance of expanding the PPP program, like my RESTART proposal, and its benefit for a recovering economy? And then maybe speak to the need for flexibility with respect to covered expenses and how loan forgiveness should be calculated.

Mr. STRAIN. I think we can clearly see the need to expand the PPP program. I think that has been clear for some time.

If you look at how small businesses are doing, you still see a very large share that is still experiencing revenue decline every week, a large share that is still worse. The layoffs have not ended yet. That is still an ongoing process, and the demand is just not back up to where it was in February. We could come from a situation perhaps where a business was having 20 percent of normal revenue or having 60 percent of normal revenue. That is a dramatic improvement, but even 70 percent of normal revenue, most small businesses survive for any period of time. So the program, I think, clearly needed to be extended.

There are many good features with what you described. Focusing on revenue makes a lot of sense, for example, as opposed to focusing on payroll. It gives firms the flexibility to use the money as they best need it. That, I think, is critical at this juncture.

Senator YOUNG. Thank you so much, Dr. Strain.

I sense some choppiness in the presentation. That, of course, were technical challenges. I think you just affirmed the strength of the RESTART proposal, and so we will get that transcribed.

And I will yield back to the Chairman. Thank you so much.

Chairman RUBIO. Senator Cantwell.

We were doing seniority today because of the web, but if you want to defer the time to——

Senator CANTWELL. Oh.

Chairman RUBIO. If not, you are on.

Senator CANTWELL. Thank you, Mr. Chairman, and I thank all my colleagues here who have worked so hard on the Paycheck Protection Program.

I just want to join the chorus on the expansion of the program because I think it is vital that we have a further expansion. We are hearing from businesses that the forgiveness period and the extension through December would give us the best flexibility.

And I also so appreciate the changes to the program. I have heard a lot. Some of the witnesses were talking about this already this morning about having an existing banking relationship was helpful.

I have heard from a lot of small businesses with the CDFI change that they were helping businesses that even had an existing banking relationship and still were shut out of the process.

So I think the fact that we got more capital out in lots of different ways and that we have the CDFI community being more aggressive in contacting businesses since we put money through that channel, I found some very, very interesting results there, and I think it is something that we should think about. It is just a lot of capital going out in a system, and I hope that next week when we have the Treasury Secretary and the SBA Administrator—is it next week, Mr. Chairman?—that we can ask them what is their inventory of what the banking system actually put out because, again, I am just continuing to hear stories. I am talking well-established businesses that definitely got left out of financing because their banks just did not participate, and so I think we have to keep moving on this.

I wanted to ask Mr. Rudolph or Dr. Strain. The SBA decided that 75 percent of the loan must go to the expenses, and we are looking for ways to increase flexibility. The recently House-passed bill lowered that to 60 percent, allowing 40 percent of the loan to be used for rent and other nonpayroll cost, giving people a little flexibility again. Depending on the structure of your small business and the expense of that, it can vary greatly. So I wanted to get people's input about that, this particular reform to the system, either of the witnesses.

Mr. RUDOLPH. Sure. On the ground for a few talks that we talked to, I think that moving it to 60 from 40 percent is great. I would think any business would say in an ideal world that they could spend it 100 percent one way or the other way, but I think 60 from 40 is the right direction. This usually helps businesses like a restaurant that tends to have a large staff when they can actually be open inside, but now that so many of them are carry out and delivery and outside tables, they cannot bring on their whole staff. So having more money to help with their rent and costs like that is a very good thing. I am sure that all of them would like to see that continue.

And, again, while I think 60 to 40 is great, you know they would be asking for more flexibility anytime they can.

Mr. STRAIN. Senator, I think that certainly is a step in the right direction. I would prefer to take it even lower than 60 percent.

You know, the challenge that Congress confronted when creating the PPP program was to try to freeze the economy in place, create a bridge, as Senator Young said, to the other side of the economic shutdown, and then kind of turn the economy back on.

I think that right now we are—and so that in that world made a lot of sense to require businesses to keep all their employees on payroll, and I fully supported that goal. At the time, it was the right goal.

The world that I think we are in now is a different world. Consumers' preferences will have changed. People are likely not going to go to movie theaters for a while. They are going to want to stream movies into their home instead. People may want to have table service at restaurants less and takeout more. All sorts of things are going to be different over the next 6 months and over the next year and maybe even longer than that.

Public policy should not serve to impede the process that businesses have to go through to figure out what does it mean to be a viable business in this new marketplace. Many businesses are going to decide that they need to shrink their payroll as a consequence of the new marketplace. Policies should not hold them back from doing that.

Of course, other sectors are going to need to expand their workforces like delivery sectors and transportation and other sectors of the economy. So that process really needs to take place. At the same time, Congress needs to continue giving support to these businesses, and so one way to do that is to just make the use of being flexible. Then either 75 percent or 60 percent is helpful.

Senator CANTWELL. Thank you, Mr. Chairman.

I would just clarify that I am sure Treasury in the beginning though this would cover the businesses, and the key thing was to make the pledge to carry the employees. But if you are borrowing and then looking for loan forgiveness and you are off 10 percent because rent is more expensive than what you calculated or utilities cost or what have you, then you are not going to take the loan. So then you have lost the whole opportunity.

So I am for more flexibility. I do not know that you would give—I think we should engage with Treasury on this. I think more flexibility is good.

Thank you, Mr. Chairman.

Chairman RUBIO. Thank you.

Senator Ernst.

Senator ERNST. Thank you, Mr. Chair, and thanks to our witnesses as well for being here today. We have heard from the witnesses about the bumps along the way with the Paycheck Protection Program, but overall, I think it has been a resounding success, at least for Iowa businesses and their workers. We have been able to save thousands of jobs through that program.

According to a Census Bureau survey that was done in mid-May, 77 percent of Iowa small businesses had applied for PPP, and 76 of them actually received PPP. So, again, it was a success, at least in Iowa.

However, with some of those bumps as described, we have heard from some of those Iowa businesses, including just as Senator Cardin had pointed out, restaurants, those event venues, hotels. They will need more than 8 weeks of the PPP loan to actually make it through this.

For example, my office did hear from an Iowa sportswear business that creates apparel for pro sports teams to sell at their various venues at the ball parks, the arenas, but they have seen a 96 percent decline in their revenue. And they have been able to keep their 27 employees on payroll because of the PPP, but the 8-week period expires this week. And they will now be forced to furlough those 27 folks.

So additional time and flexibility, I think many of us agree that those businesses who have received the PPP, they may need additional flexibility. There are many more that still may need additional assistance in the future. There are gaps that we have to close up, and I think it is important that we are talking about it today to make sure these distressed businesses can survive and retain their employees.

So we understand the issues with PPP. We are glad it is there. There are some corrections to be made. I think we can do that.

I would like to discuss EIDL a little bit as well because we have pointed out there are issues there too. Mr. Strain, I will direct this to you. In your testimony, you cited research showing that 50 percent of small businesses have fewer than 15 days of cash liquidity, and only 40 percent have more than 3 weeks of a cash buffer. So this shows how important it is that we get assistance to small businesses as quickly as possible.

So the PPP has been effective in that regard, but the Main Street Lending Program and the Emergency Injury Disaster Loan have not. I have heard from many Iowa small business owners that submitted EIDL applications over 2 months ago, and they still have not heard anything back from SBA.

So could you maybe discuss the implications of these delays for those small businesses, in particular, with EIDL and Main Street Lending?

Mr. STRAIN. Thank you, Senator. It is a real concern. I think delays in processing these applications and getting these programs online are putting hardships on businesses.

As you said, businesses can cover some period of time without revenue or without normal revenue, but really that period of time for most businesses is measured in weeks and not in months. It has taken 2 months for the Main Street program to get online. There are serious problems with getting EIDL applications passed. Businesses do not have zero revenue. They are receiving some revenue or at least most of them are, and the amount of revenue they are receiving each week seems to be going up, at least according to some new Census Bureau survey results.

They can hold on for a month or two or three or something like that, but at some point, they are going to need to lay off all their workers. And at some point, something even more severe could happen to these businesses. They really could go out of business if they cannot fill that revenue hole. So it really is imperative that these programs be administered correctly and get online as quickly as possible.

With respect to the Main Street program, that is a Fed lending facility, but under the law, the parameters of that program have to be approved by the Treasury Department. And I have serious concerns that the parameters that the Treasury Department has put in place will lead to no one using the program. There will not be borrowers or lenders.

Under Treasury's parameters, lenders have to apply normal credit standards—or they are incentivized to apply normal credit standards for loans through this facility because they have to hold between 5 and 15 percent of any loan that they make. Why would a bank participate in this facility if it has to apply or it is encouraged to apply normal lending standards?

The same thing goes with borrowers. Which borrower could get a loan through a program for a commercial loan? I think this has to be looked at pretty seriously if the program is going to succeed, and I think it is not off to a good start.

Senator ERNST. Thank you very much. I appreciate the comment.

And, Mr. Shamess, I wanted to acknowledge something that you said that really resonated with me, and that is businesses need to be innovative as they move forward. Innovation will be the key to our success. We cannot simply exist the way that we have in the past, but we need to utilize innovation. We are an innovation nation, and our businesses can also find creative ways to move through. So thank you for mentioning that. I really do appreciate it.

And thank you, Mr. Chair. I appreciate your time.

Chairman RUBIO. Thank you.

All right. Senator Shaheen.

Senator SHAHEEN. Well, thank you, Mr. Chairman and Ranking Member Cardin. Thank you for holding this hearing today and for all of the work to address helping our small businesses.

I have to say, though, that while I am appreciative that we are going to hear from Secretary Mnuchin and SBA Administrator Carranza next week, I am disappointed it has taken them so long to come before this Committee.

We are looking at a third iteration of these small business programs, as you point out, over $500 billion that has gone out, and yet we are still struggling to get data from the Small Business Administration, from the Treasury Secretary, as we are thinking about the changes that we need to make.

We have heard from our witnesses today, and I very much appreciate your being here and your testimony.

We have heard some of the challenges, and we have certainly heard in our office some of the challenges that our small businesses in New Hampshire have faced, but we do not have the data to back up what should really be guiding the policy as we move forward. That is why we need to hear from the Administrator and from the Treasury Secretary, and I hope when they come next week, they will bring with them a lot of the data that we need as we are looking at what kinds of additional changes we should make to the program.

I think we all agree that we need to change the 8-week period, that we need to provide more flexibility in the 75/25 ratio, which was not there to start with. Actually, that was imposed outside of the legislation, and that we need to look at the payback period.

In New Hampshire, we have had over 22,000 businesses receive over $2.5 billion, and for many of them, it has been critical in staying afloat.

Now, sadly, as in other places, we have a number of businesses who are about to run out of their PPP money. They applied early. They were successful. They played by the rules, and come next week, they are going to run out of those dollars. So I am really pleased to hear all of the people on the Committee talking about the need to extend the program or provide some additional help for those businesses that are going to run out of funding.

Ms. Evans, I guess my first question is really for you. You talked about the importance of small businesses, under 10 employees, and obviously, that is a critical issue for us in New Hampshire where we have so many very small businesses. But we also have a number of businesses in the tourism and hospitality industry who were the first to close their doors and are still, many of them—in fact, most of them still have their doors closed because we are still under a stay-at-home order in New Hampshire for most of our businesses.

So the question that I have is as we are thinking about how we extend funding to help the smallest of businesses who have been hurt, should we not also look at some of those industries that have been hardest hit, the hospitality industry, restaurants, tourism, where they are going to run out of money next week, they are going to be forced to lay off those employees that they have kept on the payroll, and they are going to be out of luck unless we do something in the next several weeks? So can you speak to the balancing between number of employees and the industry that people are in?

Ms. EVANS. Certainly. Thank you, Senator, for your question.

I think we can look at policies and regulations that do both. What we found is that oftentimes, the businesses—for example, Black-owned businesses represent about 40 percent of the hardest-hit industries in this pandemic. So I think we are talking about moving forward with the flexibility and thinking about industries and still being able to target the individual business owners that are across the industries that you mentioned.

Part of what AEO has done, for example, is our research is a report called “The Tapestry of Black Business Ownership” in this country, and when we look at the industries, the 2.5 million, 2.6 million Black-owned businesses across America, you will see that there is a tracking in terms of the same industries that you just mentioned, transportation, entertainment which includes restaurants and food businesses. Again, those are the industries, as you have mentioned, that have been the hardest hit, and again, they represent about 40 percent of Black-owned businesses, and their venue, of course, is going down drastically.

So I think you will find that we can do both by still targeting those small businesses that are hardest hit, and they too will be represented in the businesses that are across industries that are also being hit the hardest.

Senator SHAHEEN. Thank you.

In New Hampshire, we have a very small minority community, however, and so targeting a specific amount of funds at that minority community misses a lot of other businesses that would not be able to apply.

Again, I think we have got to look at a balance as we are thinking about what we are doing, and I appreciate your comment. Thank you.

Chairman RUBIO. Thank you.

Senator Hawley would be next. I am not sure he is on yet, although he has dialed in. He is still on mute.

All right. So we are going to go to Senator Duckworth. Again, we are going by seniority. So people are popping in as their turn comes up. There you go.

Senator DUCKWORTH. Hello, Mr. Chairman, I am here.

Chairman RUBIO. You are on.

Senator DUCKWORTH. All right. Wonderful. Thank you so much, Mr. Chairman. I want to begin by thanking you and Ranking Member Cardin and Senators Coons and Risch for their support in passing my Small Business Lending Continuity Act of 2020 through the Senate a couple weeks ago.

I understand that our legislative language was included in the larger House package that unfortunately failed to garner the necessary two-thirds support to pass under a suspension. As the Senate and House work to negotiate a solution to enhance transparency in the Paycheck Protection Program, my hope is that we can convince the House to swiftly pass a bipartisan Senate bill that eliminates any threat of SBA 7(a) loan guarantee program shutting down. It is vital that we provide the small business community with confidence and certainty that SBA's flagship loan program, guarantee program will continue to operate independent of the PPP funding levels.

My first question is for Ms. Evans. I first want to say that it is so wonderful to see a fellow Illinoisan at our Committee hearing today. I hope you and your family have been staying safe and healthy during this time.

I know that AEO has been a strong supporter of my Microloan Program Enhancement Act of 2019, and several provisions of that legislation have now been included in the HEROES Act, which the House of Representatives passed last month.

Ms. Evans, can you discuss how critical it is for us to expand SBA's microloan program now more than ever? Particularly, how would repealing the 1/55th rule, increasing technical assistance dollars, raising lending authority to intermediaries, and providing an overall increase in funding with the program better help small businesses survive the economic downturn caused by this pandemic?

Ms. EVANS. Thank you, Senator Duckworth, and thank you for asking about my family. As an Illinoisan, I am very proud to be here, and we are doing fine. Thank you so much for your question as well and your leadership and introducing the legislation that would strengthen the microloan program.

Fixing the program and its challenges including liquidity addressed by the 1/55th rule and under statutes as well as providing increased technical assistance funding to go along with the loans will help in this crisis because microloan intermediaries are trusted sources of information and capital in communities that are really struggling at this time.

This program far outpaces the others in minority- and women-owned engagement and participation, and it should be maximized as a tool to be used now during this crisis that we find ourselves in to really help these communities. So we encourage you and really appreciate moving forward with that legislation.

Senator DUCKWORTH. Thank you.

Last month, Senator Markey and I introduced legislation that would increase PPP funding by $10 billion and set those funds aside for community development financial institutions and minority depository institutions. I was really pleased to see that a few weeks ago, SBA and Treasury set aside additional funding solely for CDFIs, a positive step in the right direction.

However, more must be done to make PPP more accessible, particularly to businesses seeking small-dollar loans. That is why I am leading a letter to Administrator Carranza and Secretary Mnuchin asking them to create a streamlined loan forgiveness certification for borrowers with loans of $100,000 or less and to create reasonable safe harbors for those borrowers.

Mr. Rudolph, can you explain how such actions would be helpful to these borrowers, and what Congress, SBA, and Treasury could do to make PPP work better for small-dollar borrowers, especially minority-owned small businesses?

Mr. RUDOLPH. Absolutely. Thank you for the great question.

Generally speaking, I would say a streamlined or even forgiveness for our small businesses, which are often women- and minority-owned businesses, would give them the security and the help that they need to survive with a PPP loan.

The truth is that since they are so small, their bookkeeping is often, you know, pencil and paper or maybe just a spreadsheet, and if they cannot turn in one—that they would be on the hook for their entire loan. So I think streamlining it, doing things like that, would be absolutely great.

For other ways I think we can help, I think, as I said, an expanded EIDL, disaster loan, or similar program for 3 to 5 years after the pandemic subsides is going to be very much needed.

There is going to be limited credit, limited capital out there, and our folks are going to be hurt the most by this. These small businesses already—their owners do not have—so having a product for them is helping small businesses succeed.

And then one more small thing that I think is going to be helpful for restaurants and our retail and our sort of movie theater establishments is—they are already hurting. They cannot afford to retrofit their business to be safe in a post-COVID economy, and grants directly to have them retrofit their businesses would help them open earlier and get that revenue flowing.

Thank you.

Senator DUCKWORTH. Thank you so much.

I yield back, Mr. Chairman.

Chairman RUBIO. Thank you.

Senator Hawley, are you ready?

The CLERK. No, he is not ready.

Chairman RUBIO. Still not ready? Okay. Then we will go to Senator Hirono.

Senator HIRONO. Thank you, Mr. Chairman.

I have a number of questions for Ms. Evans. Ms. Evans, in your testimony, you discuss the challenges faced by businesses in underserved communities, particularly minority-owned businesses in these communities. Can you elaborate on the challenges these businesses face in accessing programs like PPP? What changes should we consider to address these challenges, and how can we better support underserved businesses? A two-part question.

Ms. EVANS. Yes. Thank you, Senator, for the question.

I think what we have seen in terms of the challenges, many of the—using the banking system, the traditional banking system originally as the distribution channel was a big challenge because those relationships just did not exist in many cases and in most cases for these smallest of businesses.

So one of the solutions that you have alluded to—and we are urging that they be increased—is making sure that all CDFIs and mission-focused entities are prioritized for lending through the PPP program.

Another challenge that we also noted was that the first-come situation, that businesses were locked out of. These smallest businesses were just locked out of, and so, again, we need to be able, as AEO is recommending, to target the smallest of businesses, target and dedicate businesses with 10 or fewer employees so that they are able not only to eventually get in line but to be the line and be in front of that line.

And then the third challenge, I think, many of the businesses faced was just having clear information. Again, they did not have the information. They did not have a trusted entity to go to, and so by now working through CDFIs, by now making sure that the smallest of these businesses get in the line and are first and only in the line, I think, will go far in addressing the challenges that we saw many of these small businesses face.

Senator HIRONO. Ms. Evans, have we done enough to ensure that CDFIs have the money that they can get a loan to the small businesses? Have we done enough, or is that still something we need to address in the next COVID bill?

Ms. EVANS. Yes. It is definitely something you still need to address.

We are grateful that there was a priority of CDFIs, but one of the recommendations from AEO and our Page 30 Coalition is to deal with the appropriation of $1 billion to CDFIs. They need this money, and again, many of the CDFIs are also participating as microloan intermediaries. So increasing technical assistance, many of the businesses need both. They need the lending, but they also need technical assistance and trusted guidance, which also can come from CDFIs and other mission-focused toward nonprofit organizations.

I think also, lastly, that extension and the flexibility of guarantees to the CDFIs that actually make loans in low-income communities, making sure that all of those loans have guarantees are also necessary.

Senator HIRONO. Ms. Evans, I am glad you mentioned the need for technical assistance for the smaller businesses because what happens is that without that kind of assistance, they really do not have as much of a wherewithal to access the loan programs and the EIDL programs, any of the programs.

So should we have set aside some money for technical assistance to be provided to the small businesses that you are referring to?

Ms. EVANS. Yes. Definitely, Senator, we need a set-aside for increased technical assistance.

As you just mentioned, they desperately need this help as they are trying to pivot and deal with their own business plans, how they are trying to make all the changes to be able to open and reopen and stay in business. They really need mentors and technical assistance, and so the increase in that in this program even would be greatly appreciated and necessary.

Senator HIRONO. Mr. Chairman, do I have time for another question?

Chairman RUBIO. Yes, go ahead.

Senator HIRONO. I cannot tell.

Chairman RUBIO. Yes.

Senator HIRONO. So in addition to the technical assistance, which I think is really important, otherwise these businesses are really behind the line, especially in a first-come-first-serve situation.

Should there be, Ms. Evans, some sort of ombudsman or somebody who can help them navigate the kind of complexities that we understand SBA and Treasury has put out for PPP loans?

Ms. EVANS. Yes. We actually support very strongly the setup that Senator Cardin and others have recommended that we have a new office for emerging businesses within the program. We think that will actually be very helpful in ensuring that these businesses actually have access to the services and resources they need, since they are truly the hardest hit. So such a program, we are very much in favor for.

Senator HIRONO. Thank you, Ms. Evans.

Thank you, Mr. Chairman.

Ms. EVANS. Thank you.

Senator HIRONO. You bet.

Chairman RUBIO. Thank you.

Senator Booker, are you on?

The CLERK. He left.

Chairman RUBIO. He left us. All right. Senator Rosen not on and——

Senator ROSEN. Oh, I am on.

Chairman RUBIO. You, you are? There you go. Okay.

Senator ROSEN. I am here. Thank you. Thank you, Mr. Chairman, for holding this, and Ranking Member Cardin, and I want to thank all of the guests for being here today.

I want to talk a little bit about EIDL reform. Over the past few months, of course, the coronavirus pandemic has devastated small businesses like you have heard and you know across the country, putting millions out of work. In Nevada—I keep saying this over and over again—on top of a list that we do not want to be number one of. The unemployment rate is highest in the Nation at over 28 percent. Las Vegas proper is even over that, I think, over 30 percent.

Given that more than 99 percent of our businesses in Nevada are small businesses, it is abundantly clear that the steep unemployment rate is a reflection of the overall impact the pandemic has had on small business in our state.

My office has directly helped more than 500 of these small businesses with their questions about the CARES Act, PPP, and EIDL, but one common complaint we have repeatedly received from small business owners has been about the SBA's arbitrary $1,000 per employee have on EIDL advance grants and its $150,000 cap on EIDL loans.

As I am sure Chairman Rubio can attest, these limits were not Congress' intent when we passed the CARES Act. They were not part of any deal for many small business owners when they applied for EIDL support, and that is why I have been working with Senator Cornyn and others to try to get SBA to abandon this misguided policy and why I have raised this issue with both SBA Administrator Carranza and Secretary Mnuchin in the past.

Mr. Strain, I was interested in your written testimony when you acknowledged that reviving our small businesses may not be as simple as, of course, just turning on a switch.

My home State of Nevada relies heavily on travel and tourism, and turning on the switch alone does not reopen our economy. It does not bring visitors back to Nevada, and so, of course, Mr. Strain, I am going to ask you first but then to everyone on the panel. For our small businesses, how are these arbitrary caps, the $1,000 per employee, the maximum of $150,000—how do we face an economy that is not yet ready for our small businesses? What can we do to support them?

I will ask Mr. Strain to go first and Mr. Rudolph, Ms. Evans, and Mr. Shamess, please.

Mr. STRAIN. Thank you for the question. I agree it is an important consideration.

I think what is really needed is flexibility on the part of Congress to adapt public policy to the needs of the moment. Many of these programs are legacy programs whose parameters as of February no longer make sense here in June. Some of the programs like PPP are great programs, but even there, the economy is changing so rapidly. What made sense in mid-March needs to be altered in June, even though it has only been a couple of months.

So I think Congress has shown really remarkable, I think, flexibility and creativity in dealing with this crisis. I give Congress very high marks for the CARES Act and for the measures that Congress has taken to address the pandemic.

What I would urge is Congress to be very cognizant of the fact that this is not over, even though we are reopening and even though we are likely to have a very strong summer of economic growth. Businesses will need support from Congress and from public policy for months and months and months to come, and Congress is going to have to be nimble and flexible with the parameters of those programs.

Senator ROSEN. Thank you.

Mr. Rudolph.

Mr. RUDOLPH. Thank you. I do think it is a great question, and going back to what was said about technical assistance, how we do our work and we help businesses survive and thrive is by not just giving them money and holding them through preloan and postloan. How we do that is by building trust with our businesses.

When EIDL came out, everybody was excited about the fact that they were going to get a $10,000 grant on top of the first portion of their loan through that project, and then many of them found that they either got just a thousand dollars per employee or because the way their business was set up, they did not get any grant at all.

Ultimately, they were able to still work with us and were happy to get the loan. The little things like that promote trust between a business and a service provider, and so if we had known ahead of time how that was going to work and we were not telling folks that they were going to get $10,000 as a grant, I think that might have mitigated that concern.

As far as the $150,000 cap goes, I can see where that will be a major problem for sort of a little bit larger small business. Maryland Capital Enterprises works with businesses that have 10 and less employees, and our maximum loans generally are about $50,000. So that has impacted our clients, but just anecdotally across the state, especially with sort of larger manufacturing or larger farm-type businesses, the ability to borrow more through this EIDL program would definitely be a great help.

Senator ROSEN. Thank you.

I believe my time is up, but I appreciate you mentioning trust. And, of course, our businesses need predictability to thrive. So thank you.

Chairman RUBIO. Senator Booker, are you ready?

Senator BOOKER. I am ready if you can hear me.

Chairman RUBIO. We can hear you.

Senator BOOKER. I really appreciate that. Thanks so much.

I want to first just start off by saying I am excited. We have done a lot of good work on this Committee, and I am grateful for the folks that are involved.

We have had 4.5 million PPP loans that have literally put out over half a trillion dollars, and the New Jersey data is solid. I mean, we have seen New Jersey, the SBA has processed 131,000 loans that has helped literally so many of our businesses, so many of our communities that rely on those businesses, so many jobs that rely on that, to the tune of $16.8 million in our state. So I am happy about that.

But there is a particular problem that concerns me, which is Federal assistance has provided relief to a lot of businesses, but just again, disproportionately, our smallest businesses are being left out. And they are being left out because they still do not have relationships to institutions that can get them that capital, and often that is being left out from banks and more.

So I am excited about the potential to do another sort of COVID emergency package that could help level the playing field, level the access, and help a lot of these critical businesses that are core pillars of our entire towns and communities.

I have talked to mayors across the State of New Jersey who just tell me painful stories about what happened if on their Main Streets, you had a store close up, board up, and the challenges that that would have.

So I am excited that there is a bipartisan proposal that I have been working on with Senator Daines to help fill the gap by scaling up relief funds that have emerged across this country that are targeting those very small businesses, and we are excited because those businesses are located in low-income areas or rural areas to poor urban areas and really could be the bridge to help make sure that there is a lot more equity in these programs.

And the local relief programs that are out there are just doing great. The data, for example, on the EDA in New Jersey, the New Jersey ESA, is incredible. In April, they made grants available to the smallest businesses, 10 employees or less, was five times oversubscribed for the state-run program within 75 minutes. That is what the demand was.

From Indianapolis to Miami, which I know our Chairman knows a lot about, Chicago, we are seeing the same thing. These ground-up solutions are getting it done for small businesses, but they are way oversubscribed and way overfunded. And that is why our RELIEF for Main Street Act, which would put $50 billion to provide direct assistance to these funds, to scale them up and to seed them, the funding would trust local leaders and community organizations that are connected to these businesses.

So I just would like to ask for the panel—you know, there are a lot of fixes to PPP that are being proposed, changing the 75/25 rule, extending the forgiveness period, and my question for the panel, very simply, is, is the program that I am describing to you for a lot of the underbanked communities, a lot of minority businesses that are underbanked, who are just distrustful even of the main banking systems—is this not a great way to get the flexible funding more directly to small businesses that are out there to help ultimately when we look back on this as a Committee 5 years from now, it will show a much more equitable distribution, especially to the smallest businesses in America? Anybody on the panel can pick that up.

Mr. STRAIN. Senator Booker, I think you are highlighting a really important issue.

I would just briefly comment that when Congress passed the Paycheck Protection Program, it explicitly included language to hold lenders harmless in the event that borrowers misrepresented themselves on their applications, and it really viewed banks as a conduit to get money into the hands of small businesses. That was clearly the intent.

Banks are very skittish after some of the things that happened with FHA and the financial crisis, and banks needed a lot of reassurance that they would actually be held harmless, and that the spirit of the statute would be executed by the Treasury Department and by the executive branch.

I do not think the Treasury Department did enough when implementing PPE to make banks feel comfortable that they would, in fact, be held harmless. There was some sort of misrepresentation or something like that, and what that did was it led banks to focus lending on existing customers. And as you say, that left out many of the most vulnerable small businesses. I think that is something that Congress should take very seriously when considering reauthorizing the program or modifying the program. I think that is one of the most important parts of this.

And I think PPP got it right. I just think the administration's implementation of it did not succeed as well as it should have.

Senator BOOKER. I appreciate that, and that is, again, what Senator Daines and I are really trying to get at here in these sort of local-level platforms which are designed specifically to help smaller businesses in states and cities across America and rural areas as something that I am really excited about as promising.

Being I know that our Chairman runs a tight ship and I have no clock in front of me, I am going to try to just tread upon his grace and his goodwill, his kindness, and try to force one more question in there and hope that that buttering up actually worked.

I am concerned, as we see right now, about challenges we have with racial justice in America, and a lot of these challenges in America are being exposed by the coronavirus, being exposed by a lot of protestors lay bare as we see the greater struggle for just equality of opportunity in America.

We know that Black Americans entered this crisis financially vulnerable prior to the pandemic. We knew that a White family in America was likely to have $10 for every $1 a Black family has. A study in Boston found that the average White family had a net worth of about $250,000 compared to $8 for a Black family.

One of the truths about America is entrepreneurship is a way to close the racial wealth gap, and we know that, unfortunately, COVID–19 has savaged communities of color. And that has been another impact upon minority entrepreneurs and minority businesses, one of the primary ways, again, that people of color gain wealth.

So minority businesses are just proportionately in the industries most affected by COVID–19, accommodation and food services, personal laundry, retail, and according to a recent Color of Change and Unidos survey, among the minority-owned businesses who were still open and operating, nearly half of them expect to close within the next 6 months if conditions do not change, another reason why what Senator Daines and I are working on is so important.

As Congress considers what to do next, it is hard not to overstate the stakes for these businesses that might close in the next 6 months if we do not act boldly with a focus affirmatively in support of very small minority-owned businesses. We could see Black America, Latino America being set back decades as well as urban cores and rural Main Streets really going back to being vacant and blighted, where they are just hurting already and seeing challenges.

So my question to Dr. Strain or anybody on the entire panel, frankly, is I joined Senator Cardin to release a proposal aimed at preventing underserved and underbanked businesses from falling further behind in the COVID crisis.

I just want to say I believe we must devote the same attention to investment and to supporting new businesses, new entrepreneurs as well.

Is that something that you guys agree with that as we emerge from this economic and public health crisis, we actually have an opportunity to build a new economy? That means that this is a critical time to create opportunities for new business starts, especially for underserved entrepreneurs. Is that something you would agree with? And anybody can answer that. I do not want to contain it to just one.

Ms. EVANS. This is Connie Evans, Senator Booker.

AEO really does support exactly what you are speaking to.

I think the Daines and Booker proposal is one that is based on equity as well as the Cardin-Booker Equity in COVID–19 Recovery white paper that called for things like making permanent the Community Advantage Loan Program and other features in that white paper that we strongly, strongly support.

But in my oral comments, remarks earlier, we also pointed out through the Page 30 Coalition that we are strongly recommending the focus and intention on programs that reach rural, women, veterans, and other low-income and minority communities, where I think you will see these startups coming from.

As you know, entrepreneurs are amazingly resilient. A restaurant may close and not be able to keep going, but that entrepreneur may keep going. They are resilient and may try something new. So being able to have resources, capital and other resources, where they can get started and they can move to their second or their third business is also very important for them. The capital and the other resources to do that is something that we definitely will support, particularly again focus on those businesses that have 10 or—1 or 2 employees, 10 or less employees. This is where we think you are going to find that innovation and that ability to be a resilient business owner, even though they might move to a different business and start up again.

Senator BOOKER. So let me just say in closing, there is no doubt the spirit of the statute is right on that we are sort of advancing around here, but it is the implementation I know that you are concerned about. And that is why I believe strongly we need new channels of capital distribution in states and localities to begin to balance these scales in an important way.

So I am grateful for your testimony. I am grateful for the panel as a whole and really grateful, Mr. Chairman, for the bipartisan work we see in trying to address these issues. All of America is stronger when we have entrepreneurs from all backgrounds and all communities, from rural to urban. There is strength and power in America when we can stimulate entrepreneurialism, especially in disadvantaged communities that are often left out of the capital equation of opportunity.

So thank you, everybody.

Chairman RUBIO. Thank you, Senator Booker. You have got to back up off that camera. Your face is this big.

[Laughter.]

Senator BOOKER. I think you heard this, Mr. Chairman, but I am what they call a "40-footer." I look at a lot better from 40-feet away.

[Laughter.]

Chairman RUBIO. Me too. We are all 40 feet apart these days. All right. Thank you.

We have one more Senator. Senator Inhofe has joined us. Senator Inhofe, you are recognized.

Senator INHOFE. Well, thank you very much, Mr. Chairman, and I will be brief.

I have become a real fan of this PPP program. It has been very successful.

Mr. Shamess, it is nice that I can talk to someone who is live and in here. I appreciate that. I want to thank you for your service to our country and to the economy. Expanding a two-person operation to a national manufacturing company is no small feat, and I greatly appreciate your work. Your testimony highlights the benefits of the PPP loan provided to your business and employees.

Similarly, in my State of Oklahoma, in the town of Owasso, located just north of Tulsa, the Owasso Auto Care was able to receive this SBA loan and keep their four employees on the payroll. It was already doomed, they thought, at that time, and while these two operations may vary in size and mission, you both have one thing in common. And that is the success from this program.

So I would say that—can you discuss some of the ways your business was able to utilize this program and the fact that large and small businesses can use it and what you envision as the next step for businesses like yours and our Owasso Auto Care operation?

Mr. SHAMESS. Thank you, Senator, for the question.

I will make one opening comment. I had the pleasure of serving in the Air Force in your state at Vance Air Force Base under the 71st Flying Training Wing. That was a great privilege. I am a big fan of Oklahoma, an amazing State.

Senator INHOFE. What year were you there?

Mr. SHAMESS. I was there from 2004 through 2009.

Senator INHOFE. I have every reason to believe that you and I met around the 2005 time frame.

Mr. SHAMESS. Yes, sir.

Senator INHOFE. I chair the Armed Services Committee, the Senate Armed Services Committee, and at that time, I was not chairman. But I was very, very active in it. We had done a great job at Vance. I do not know whether you have seen some of the things recently that they have been doing, but it is a real success story.

Mr. SHAMESS. Yes, sir.

So to answer your question, I think there is a hybrid approach that is necessary here. I feel like we have to be somewhat careful about the level of funding that is available now or may be available in the future.

When we entered the COVID pandemic in early March, our position was there is no help coming. We have to figure this out, and we are blessed to have an incredible team that is very, very devoted to that. So everything that came later with the Paycheck Protection Program and the other assistance that is being offered was fantastic.

But there is still a burden on small businesses to lead, to lead the organizations, and to take care of their people. It is not something that can be solved with a limitless number of dollars or programs. We have a responsibility. I have a responsibility to care for my employees and to innovate and to find ways to be successful in an economy that none of us has ever experienced before.

There is still economic activity taking place. It is growing, and I can validate that inside our organization. And I hope that the business you are referencing is starting to feel that as well.

So what I would say as a challenge to all of us small business owners is be as disciplined as we possibly can, take care of our people, and start finding ways that we can function as best as possible in this environment. And then anything that comes from this panel, from this Committee, form the Federal Government is only going to give us that greater durability, that bridge that we need to get to the other side.

Senator INHOFE. I will tell you what would be a good idea, I think, because that actually approaches on the other question I had to ask you, and that is, what should we—what are some of the aspects that Congress should keep in mind as we go forward? And while you have given some ideas there, it might be a good idea, Mr. Chairman, if he were to give us a white paper on some specific things to look for and why and judging from your experiences.

I will go ahead and make that request, but any comments on that you might have right now?

Mr. SHAMESS. Specific to steps that could be taken in small business, sir?

Senator INHOFE. Yes.

Mr. SHAMESS. Well, I can tell you what happened with us. We rallied our entire team very early on. We made some really, really tough decisions, and there is this sense of sacrifice that especially those in uniform that is a shared sacrifice, and that everyone has to row together.

I am about to be out of time, but I will share a sentiment. I was at Dover receiving the remains of one of my friends who was killed overseas, and his father was there with me, who was a Vietnam veteran. And he said, "When joy is shared, it is multiplied, and when sorrow is shared, it is divided." And I think about that in the context of where we sit today, and I think companies have to think the same way.

The funding is great, but if I cannot sustain a business that is relevant today and potentially in 6 months, then I am not saving anything. So it is a shared sacrifice inside those organizations, I think. Everyone has to take a hit, and in our organization, we all did. We had to furlough some of our team. We are happy to have them back, another part of our team. Everyone else took a 50 percent decrease in compensation, and that is on top of losing two-thirds of our revenue. That was what we had to do just to say, "I can make it to the end of March. I can make it to April 15th."

So what I would say—and I am happy to put much of this in writing and share it with you, sir—is we have an obligation to lead inside our organizations and strive to get to the other side in the best position we can so we can still be relevant.

Senator INHOFE. That would be great. That would be very helpful. Thank you very much.

Thank you, Mr. Chairman.

Chairman RUBIO. Thank you.

And the bad news is we are hitting up on the clock here because we have a vote at 12:00. We do not have this room all day because of the way they are juggling the rooms. So I do not think I will have time for my questions. The good news is virtually everything I was going to ask was asked by the other members, which is even better, because that shows you the level of interest and participation.

I do appreciate the time all of you have given us, almost 2 hours here under these conditions, being online and so forth, and of course, you, Mr. Shamess, for being here as well. And your testimony is very important.

Before I adjourn, I do want to ask consent to include a written statement from the National Federation of Independent Businesses in today's record hearing, which I think will be helpful.

[The information follows:]

Chairman RUBIO. Again, I want to thank you all and all the members who have popped in. As we have noticed, when it is online, the attendance is a lot higher from our members, but it is good. You can see the level of interest and passion and bipartisan cooperation and opportunity that exists, not just on what we have done, but on what we have a chance to do moving forward. So thank you again.

The record for this hearing will stay open for 2 weeks. Any statements or questions for the record should be submitted by the 17th of June at 5:00 p.m., and with that, this hearing is adjourned. Thank you. Thank you all.

[Whereupon, at 12:00 p.m., the Committee was adjourned.]

APPENDIX MATERIAL SUBMITTED

FROM THE DESK OF

JOSEPH SHAMESS

July 1, 2020

Chairman Marco Rubio
United States Senate
Committee on Small Business & Entrepreneurship
Washington, DC 20510-6350

Dear Senator Rubio,

It was an honor to testify before you and the United States Senate Committee on Small Business & Entrepreneurship on June 3rd, 2020. On behalf of the millions of American small businesses that power our nation's economy, I thank you for the steadfast support this committee has shown.

In response to the questions in your June 19, 2020 letter, I have attached my additional written testimony to this message.

Again, thank you for fighting for American small business. I remain available to you and the committee if I may be of service in the future.

Sincerely,

Joe Shamess
Co-Founder & Owner
Flags of Valor

PO BOX 171, GREAT FALLS, VIRGINIA 22066

Questions from: Chairman Rubio

QUESTION 1:
Can you describe in more detail how your business and employees have been impacted by the COVID-19 pandemic?

COVID-19's impacts on our business have been devastating both economically and emotionally. As stated in my original written testimony, we lost two thirds of our revenue at the beginning of the pandemic. This essentially meant we would become completely insolvent within 30 days unless we made extreme reductions in our costs and delayed paying rents. Like many small businesses, our two largest fixed costs are our team of dedicated employees and our rent. Therefore, we had to execute a painful furlough of 4 of our American combat veteran craftsman and apply a 50% reduction in compensation to the remaining staff. Additionally, we sent a letter to our three landlords notifying them that we would not be able to pay our rent for at least 2 months. While these steps initially kept us alive, they would not be sufficient to insure our business's survival in the event the pandemic became longer term.

For this reason, we dedicated extraordinary effort to innovating our business to be relevant in the current crisis while simultaneously executing a total review of our business, ultimately injecting maximum efficiency into our operations. This was equivalent to building a parachute while plummeting to the ground and simultaneously proofing the new parachute for proper performance before impact. The primary innovation we created was a product solution for American families with children out of school. The Kid's Flag Build Kit, a craft project where children can build their very own wooden American Flag, was a major success in securing much needed revenue.

The emotional impact is most often not mentioned in any of the reporting on the affects of COVID-19 on small business. Any small business owner will tell you how stressful it is to own and operate a business. Many of us operate with thin margins, limited liquidity, and struggle daily to grow. When you add the burden of state and federal compliance, running a small business is all encompassing and never ending. It's all day, every day, morning, noon, and night. You can't turn it off. Then, entering the pandemic, we found ourselves facing a tidal wave of lost opportunity, uncertainty, and concern for the health of our team and families.

This emotional toll is so great that it must be considered as lawmakers debate what resources to provide small businesses and the process/compliance involved in using them. Small business owners don't have a surplus of time or stress to dedicate to anything, especially as we are hanging on to survive.

We've begun to see economic activity increase, with a slight resurgence in business to business sales. That said, we feel a long way from being through this. We continue to juggle the uncertainty of the strength of the consumer and concerns of liabilities of a COVID-19 incident in our business. Congress cannot predict the future for our business, but lawmakers can provide maximum simplicity in PPP loan forgiveness, stop making us compete for workers with unemployment benefits, and provide liability protections for responsible operators.

QUESTION 2:
What changes have you made to your business model in response to the pandemic?

When the pandemic began, we created a list of all the opportunities we suspected we would lose over the following 6 months. The list included the loss of all point of sale opportunities for our retail show room and trade shows, loss of paid partnerships with business and philanthropic partners, and the loss of our business to business sales channel. This analysis drove us to make major changes to our business model. We permanently closed our retail showroom and have since been fortunate to sublease the building. We reduced our business to business sales expenses by 75% and shifted our entire sales focus to online sales and through our direct to consumer website and organizational email account.

While we anticipate a full return of our business to business sales channel in the future, we are not dedicating any thought or time toward retail opportunities. We will re-assess our participation in this sales channel when we are able to safely operate in a retail environment with requisite levels of foot traffic.

Your testimony tells a power narrative of how Flags of Valor benefitted from the Paycheck Protection Program (PPP).
QUESTION 3:
How would you have managed the business without a PPP loan?

We built a plan for Flags of Valor's survival long before the PPP program was being discussed. The plan included three phases of which we executed the first two prior to receiving the PPP loan. Phase 1 was reducing our operation to half staff, limiting everyone to 20 paid hours per week. We executed this on March 15th, 2020. Phase 2 was the furlough of 4 craftsmen, a 50% reduction of remaining staff compensation, and a deferral of all rents. We executed phase 2 on March 27th, 2020. The 3rd phase of our plan, that we've been fortunate to avoid, was the furlough everyone while waiting until the conclusion of the pandemic, where we might rebuild our company and our mission.

Based on the actual economic impacts of this crisis, I would estimate that we'd still be operating in phase 2 of our plan without the support of the PPP program. This specifically means, we would not have been able to bring our furloughed staff back to work, pay our rents, or recover staff salaries. Furthermore, this would likely have resulted in the long term loss of many of our employees as they would have been forced to begin seeking alternative job prospects. A potential permanent loss of our employees carries with it an even greater expense as we would be saddled with the many costs associated with recruiting and training employees, not to mention the incredible burden this is on their families.

Our workforce is particularly unique in that all of our craftsmen are American combat veterans, many of whom failed to find a home in corporate life. We specialize in complementing the three dimensional veteran journey from service abroad, to homecoming, to life after the uniform. This ethos of service is engrained in everything we create, how we care for one another, and how we interact with the world. Losing one of these veterans to furlough or permanent layoff is devastating to our team, the individual, and the family.

Questions from: Senator Young
"My RESTART proposal would provide flexible loans to more businesses and nonprofits to cover payroll, benefits, and operating costs for six months with forgiveness based on revenue loss during the pandemic. Additionally, there will be no requirement to increase staffing beyond what business conditions dictate. Mr. Shamess, in your testimony you discuss the need for providing flexibility with loan forgiveness and extending the period for spending PPP loans – and my RESTART proposal does just that.
QUESTION 1:
As a Small Business Council member and someone facing the same challenges as millions of Americans, can you speak on the need for proposal similar to RESTART or PPP expansion to reach more of the hardest hit businesses?"

Lawmakers were remarkably prescient when creating the PPP program to provide much needed liquidity to struggling small businesses. The recent expansion of the usage window to 24 weeks and altering of the usage ratios from 75% - 25% to 60% - 40% were excellent improvements. Unfortunately, we are seeing the pandemic's duration exceed what many of us suspected it would be early on. Now, several months into the devastating economic impacts, it's becoming increasingly evident that many more small businesses will not make it. Unfortunately, we cannot save them all and we must exercise sincere caution when considering additional aid programs to insure we do not undermine the ingenuity and drive of free enterprise. To be more specific, we must find a balance between using aid programs to save our economy while allowing capital markets and entrepreneurship to support future growth.

Therefore, I do support a limited expansion of PPP funding or a program similar to the RESTART proposal. However, focusing on the hardest hit areas may not be the most relevant target to insure the long term viability of American small businesses and American jobs. For example, the food and entertainment industries represent many millions of American jobs. The same industry also has remarkably high turnover in terms of both business creation and employment. Is this an industry that while being one of the hardest hit, may also be one of the fastest to regrow through the natural business cycle and capital markets? If the goal is to increase the durability of small businesses and the jobs they represent, then we must incentivize these items directly. Namely, bridge the gap so that businesses who are on the cusp of hiring can hire because the risk has been reduced. Do not continue to incentive businesses who are idle and cannot bring employees back in a meaningful way.

Similarly, there is significant debate concerning the expiration of federally subsidized unemployment benefits. This must be addressed quickly so that any required federal subsidies incentivize employees to return to work. Small businesses cannot compete with a program that incentives inactivity. If it is determined that income subsidies are required for bi-partisan commitment, then at least have the subsidy be contingent on the employee returning to work, even at reduced hours.

There is a lot of value to the RESTART proposal and its premise will help many small businesses. However, I would suggest the following considerations as it evolves. First, I recommend changing the business size threshold to 500 employees or fewer to be aligned with generally accepted small business size standards. Also, loan forgiveness calculations must be as simple to understand and validate as possible. Our burden as small business owners is immense and loan forgiveness cannot become a job in itself. Finally, I would return to my previous comment about what we choose to incentivize. The RESTART proposal might be interpreted to incentive failure if it offers a greater degree of loan forgiveness based on the difference in previous year's sales. This type of calculation may undermine the very creativity that's led so many businesses to innovate their way through the pandemic. Government assistance will not be enough. We, business owners, have a collective responsibility for our own survival. Help us if you can, but please be careful not to erode the bedrock of capitalism that inspired us to participate in the economy in the first place.

QUESTION 2:
As a co-founder of a veteran-managed small business, what can this Committee be focusing on to empower more veterans such as yourself with the certainty they need to support their businesses reopening?

Unfortunately, veterans are under-represented in business ownership compared to their historical averages (Reference https://www.flagsofvalor.com/blogs/news/veteran-leaders-in-business). What veteran business owners need to emerge from the pandemic are many of the same things all small business owners need. This committee cannot provide the sales we need, but it can provide us the certainty that we will have liability protections from the spread of COVID-19 if we responsibly follow guidelines. Additionally, simplify every federal business aid program as much as possible so that receiving support and complying with requirements is transparent and efficient.

In order to increase the level of veteran entrepreneurship in America, I suggest considering an amendment to the Post-911 GI Bill to allow veterans to use a portion of their available GI Bill benefits towards the costs of starting and running a business. This program would dramatically increase a veteran's access to capital and could be easily structured on a model similar to the PPP loan program. Specifically, allow the veteran to use their benefit toward rent, payroll, and certain operating expenses. Doing this would surely increase the number of veterans starting small businesses and undoubtedly benefit many communities as the values of American service members will more deeply penetrate the communities they represent.

United States Senate
COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP
WASHINGTON, DC 20510-6350
TELEPHONE: (202) 224-5175 FAX: (202) 224-5619

June 19, 2020

Ms. Connie Evans
President and CEO
Association for Enterprise Opportunity
1310 L Street, NW, Suite 830
Washington, D.C. 20005

Dear Ms. Evans,

Thank you for appearing before the Committee on Small Business and Entrepreneurship on June 3, 2020, at the hearing titled "Perspectives from Main Street: COVID-19's Impact on Small Business."

Enclosed are questions for you that have been submitted by Chairman Rubio and Senator Hirono for the hearing record. Please submit your answers to these questions by 5:00 pm on Friday, July 3, 2020 via electronic mail to Kathryn_Eden@sbc.senate.gov. To facilitate the publication of the record, please reproduce the questions with your responses.

Again, thank you for your assistance. Please contact Meredith West of the Majority Staff at meredith_west@sbc.senate.gov or Sean Moore of the Minority Staff at sean_moore@sbc.senate.gov with any questions you may have. We look forward to reviewing your answers.

Sincerely,

A

Marco Rubio
Chairman

Senate Committee on Small Business and Entrepreneurship Hearing
June 3, 2020
Follow-Up Questions for the Record

Questions for Ms. Connie Evans

Questions from:

Chairman Rubio

The COVID-19 pandemic has illustrated why our country needs to reclaim a pro-American industrial policy where we can create stable, dignified work for workers and small business owners.

QUESTION 1:

How can this Committee ensure minority entrepreneurs survive this crisis?

Answer: To our predictions, research is showing that Minority-owned firms—notably Black, Latinx, and Asian- owned –have experienced exacerbated revenue shock due in part to most of their businesses are located in high-impact sectors such as restaurants, personal care, etc. and in part to their weaker financial position pre-pandemic. (JPMorgan Chase Institute)

This Committee must continue to create and deploy targeted-based policies that will provide contoured assistance to disadvantaged entrepreneurs. Actions must include 1) creating more liquidity for underserved markets throughout the remainder of the pandemic; 2) allowing all certified CDFI lenders access to participate as PPP lenders; 3) passing the Periodized Paycheck Protection Program (P4) Act to allow small and microbusinesses the opportunity to get a second PPP loan; 4) passing legislation that will safeguard minority-owned restaurants, one of the hardest hit entrepreneurial sectors; and 5)creating a federal guarantee program that guarantees all loans made by Black-led CDFIs and mission driven banks to Black firms.

QUESTION 2:

What will microbusinesses, particularly in communities of color, need to sustain their businesses during this time?

Answer: We recently conducted a COVID-19 impact survey with more than 1800 small business owners and entrepreneurs. According to the survey results, the most challenging barriers to recovery for microbusinesses is cash liquidity and technical assistance.

In addition to providing prioritized COVID-19 relief liquidity, this Committee must pass legislation that will expand the reach of TA services beyond the SBA's existing Program for Investment in Micro-Entrepreneurs (PRIME) TA; and 2) increase resources for microloan intermediaries that provide TA support to unserved businesses

QUESTION 3:

How can the Committee best support Community Development Financial Institutions (CDFIs) moving forward?

Answer: As you may know, CDFIs have become some of the leading lenders of credit and investment capital to small and emerging businesses. The pandemic is further testament that these institutions are critical to the communities they serve.

The Committee can support CDFIs by increasing the Department of Treasury's CDFI Fund budget to $1 billion in forthcoming FY2021 appropriation levels and guarantee all PPP loans made by CDFIs and other mission-based lenders that serve low-income households and minority-owned firms during the crisis.

QUESTION 4:

Aside from capitalization, are there other constraints CDFIs are facing?

Answer: Yes. Among others, the CDFI industry lacks the product conformity such as investment vehicles that can diversify their risk portfolio, scale of activity, and financial incentives needed to pursue secondary and primary markets more aggressively. These actions would help grow the CDFI system to better benefit LMI communities. (Brookings Institute)

Congressional action that increases funding levels for the CDFI Fund at the Department of Treasury would help to resolve the many said challenges that CDFI's face.

Questions from:

Senator Hirono

Providing additional support for community lenders
Ms. Evans, in your testimony you acknowledged that Community Development Financial Institutions (CDFIs) and other community-based entities have become some of the leading lenders for small and emerging businesses—particularly those that may not have existing relationships with traditional lenders. This has certainly been the case in Hawaii, where our CDFIs have worked to improve access to capital for local businesses. I was encouraged to hear you reiterate your support for making sure CDFIs and other community-based lenders are prioritized for lending within PPP given their importance to supporting "smaller" businesses.

QUESTION 1:

Can you elaborate on some of the recommendations you have made to improve CDFI participation in programs like PPP?

Answer: We certainly appreciate your attention to this critical issue. The Committee can support CDFIs by increasing the Department of Treasury's CDFI Fund budget to $1 billion in forthcoming FY2021 appropriation levels. Raising these levels could improve these mission-based lenders infrastructure in the years ahead. As noted, the CDFI industry lacks the product conformity such as investment vehicles that can diversify their risk portfolio, scale of activity, and financial incentives needed to pursue secondary and primary markets more aggressively. Increased approps levels can alleviate these shortcomings and help to expand the CDFI system.

Lastly, we believe that Congress should guarantee all PPP loans made by CDFIs and other mission-based lenders that serve low-income households and minority-owned firms during the crisis. The pandemic has been notably challenging for the entire small business ecosystem, including lenders. This crisis has uncovered the existing gaps within lender-markets, especially among CDFIs and fintech lenders. Guaranteeing these loans will protect the CDFI system from further risk.

QUESTION 2:

I have supported additional funding for the CDFI Fund, but what further changes should we consider to improve CDFI participation?

Answer: Our appreciation continues. We believe that Congress should amend the PPP eligibility threshold for CDFI and other Community Lenders to allow them access as lenders. As mentioned, these mission-based lenders provide amplified services to microbusinesses and entrepreneurs in the most vulnerable communities. Congress should also prioritize these lenders in all forthcoming legislative actions surrounding small business relief aid and programs.

QUESTION 3:

How would these changes benefit borrowers in underserved communities?

Answer: These changes will provide stronger support to the national CDFI system. In return, these institutions will have greater capacity to deploy liquidity and services to low-income and emerging markets.

Providing additional support for underserved and rural communities
Ms. Evans, your organization has recently recommended that Congress should take actions to prioritize underserved and rural communities through PPP, including through greater transparency and additional funding for smaller businesses in these communities.

QUESTION 4:

Can you elaborate on the need for greater transparency to improve programs like PPP for underserved and rural communities?

Answer: As mentioned in my testimony, AEO believes that Data is a powerful tool, that when used correctly, can shape the world we live in. We utilize government-released data to create policy material for lawmakers to better serve their constituencies.

Most importantly, transparency mechanisms are crucial for proper Congressional oversight. To that end, we applaud regulators' recent decision to make PPP data available for public consumption. This action will likely explain where federal prioritization is needed amongst our nation's small businesses impacted by the COVID-19 pandemic.

QUESTION 5:

What changes should we consider to improve access to these programs for smaller businesses in particular?

Answer: As of this week, a significant percentage of COVID-19 small businesses relief aid remains unused. Namely, the SBA has reported that nearly $130 billion in unclaimed liquidity remain in the PPP. The EIDL program has around $230 billion reaming. The agency also reported that $16 billion in advanced grants remain. (SBA)

Despite lingering liquidity, vulnerable entrepreneurs and microbusiness still face unprecedented barriers to accessing these federal funds. To eliminate these challenges, AEO, along with the Page 30 Coalition, calls on Congress to eliminate structural difficulties by removing the PPP's "first-come, first-serve rule," extending the PPP deadline through December 31, 2020 and providing additional funds only for firms with (ten) employees or less. As it relates to the EIDL program, Congress must eliminate the SBA's advance grant threshold of $1,000 per employee as this rule disregards lawmakers' original intent.

United States Senate

COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP
WASHINGTON, DC 20510-6350
TELEPHONE: (202) 224-5175 FAX: (202) 224-5619

June 19, 2020

Mr. Nick Rudolph
Baltimore Regional Director
Maryland Capital Enterprises, Inc.
212 West Main Street, Suite 400
Salisbury, MD 21801

Dear Mr. Rudolph,

Thank you for appearing before the Committee on Small Business and Entrepreneurship on June 3, 2020, at the hearing titled "Perspectives from Main Street: COVID-19's Impact on Small Business."

Enclosed are questions for you that have been submitted by Chairman Rubio and Senator Hirono for the hearing record. Please submit your answers to these questions by 5:00 pm on Friday, July 3, 2020 via electronic mail to Kathryn_Eden@sbc.senate.gov. To facilitate the publication of the record, please reproduce the questions with your responses.

Again, thank you for your assistance. Please contact Meredith West of the Majority Staff at meredith_west@sbc.senate.gov or Sean Moore of the Minority Staff at sean_moore@sbc.senate.gov with any questions you may have. We look forward to reviewing your answers.

Sincerely,

Marco Rubio
Chairman

Senate Committee on Small Business and Entrepreneurship Hearing
June 3, 2020
Nick Rudolph Responses to Follow-Up Questions for the Record

Questions for Mr. Nick Rudolph

Questions from:

Chairman Rubio

It is critical that small businesses that do not have traditional banking relationships have access to the Paycheck Protection Program (PPP). Mission lenders such as Community Development Financial Institutions (CDFIs) serve as a lifeline to these businesses especially those in underserved markets and communities of color. In your written testimony, you mentioned additional actions that must be taken to help CDFIs.

QUESTION 1:

Can you expand upon your recommendations?

Section 1103 of the CARES Act provided $240 million for the SBA to provide existing Small Business Development Centers and Women's Business Centers with grants to support COVID-19 related technical assistance to small businesses and entrepreneurs.

RESPONSE 1:

We are extremely grateful for the SBA's work and COVID-19 related technical assistance funds. They have allowed us to hire Business Consultants to focus on businesses directly impacted by the pandemic. Our recommendation is to continue this and/or similar funding for the next three to five years. This is for two primary reasons:

1. The COVID-19 pandemic will have a lasting impact on our smallest businesses, dedicated funding to assist those businesses will be needed for longer than the one-year term current grants cover. This funding could scale down throughout this time.

2. The expected impact of COVID-19 on our economy in general will make it difficult to raise funds to provide services to for-profit businesses. Companies, individuals and foundations will have less money to give and will likely focus on immediate needs such as food and housing security and medical care, leaving little for small business technical assistance.

It is also important that a product like the current EIDL loan is offered for the first three to five years after the pandemic will help our small businesses survive for a few reasons:

1. It is expected that customers will return to these businesses slowly. This will negatively impact expected revenue, but expenses like rent, utilities and fees will remain the same.

EIDL loans offer a low interest, long term way to bring in working capital to help the businesses survive.

2. Our clients had difficulty obtaining loans due to lack of collateral before the pandemic, often only having a little equity in real estate. If housing values shrink, their amount of collateral will follow. EIDL loans have much less stringent collateral requirements and would help our businesses survive as people become more comfortable going shopping.

QUESTION 2:

How has Maryland Capital Enterprises utilized these funds thus far?

RESPONSE 2:

Maryland Capital Enterprises (MCE) received funding in April and is ramping up services for an expected second uptick in need for services as our small businesses reopen. MCE hired two Business Consultants to work directly with women owned small businesses impacted by COVID-19 and are in the process of hiring another consultant. We are developing a virtual training calendar, creating a more accessible and functional Women's Business Center website and, planning a COVID-19 recovery conference to be held when it is safe to convene.

Some of our funds will be used to hire subject matter experts to facilitate specialized trainings. Additionally, funds will be used to contract a marketing and a bookkeeping consultant to work directly with clients who need one-on-one assistance.

QUESTION 3:

What questions or concerns are entrepreneurs most commonly seeking guidance on from the Women's Business Center?

RESPONSE 3:

1. Finding funding to survive the economic hit caused by the pandemic
2. Navigating the PPP and EIDL processes
3. Understanding reopening and how to reopen safely
4. Adapting their business to a post-COVID-19 economy
5. Fear of a second shut down
6. People seeking to open businesses because they see a new opportunity presented by the pandemic

QUESTION 4:

What can be done to improve SBA's coronavirus response and entrepreneurial development assistance programs moving forward?

RESPONSE 4:

I would like to again state that the SBA has done an extraordinary job in these unexpected and unprecedented times. The speed at which they put together loan products and guidelines was much needed and the constant communication from them has helped us do our jobs. Many of the issues with the loan products are being solved as the program ages and grows. The change in use of PPP funds is a great step for example.

Moving forward, expanding the EIDL program will be key. Ideally, new rounds would have dedicated funds for the smallest businesses with less than 20 employees. This will ensure the survival of more small businesses while leaving traditional loan products for new businesses and those doing well despite the pandemic. With more businesses surviving, more technical assistance will be needed to help them sustain and grow as we emerge from the pandemic.

Regarding PPP, creating a more streamlined way for micro-businesses to prove funds were spent correctly would be ideal. Many of these businesses are still doing books via pen and pencil and do not have the data and record retention systems or staff to pull together detailed information. Perhaps making PPP loans automatically forgivable for businesses with less than a certain number of employees or loans under a certain dollar amount with a singed assurance of compliance would make the program more desirable for micro-businesses. This might encourage small CDFIs to facilitate these smaller loans, removing the burden from larger banks.

The SBA is expanding its training calendar locally, this is a great help. It helps us meet new clients and develop relationships with partner organizations. Expanding these trainings and adding more evening and weekend trainings would reach even more entrepreneurs.

Questions from:

Senator Hirono

Providing additional support for resource partners
Mr. Rudolph, in your testimony you mentioned that your Women's Business Center has seen requests for services increase by more than double in recent months. Locally, in Hawaii, we have heard from resource partners like the Mink Center for Business and Leadership and Hawaii SBDC that are working overtime to provide support for businesses. In many cases, they are helping businesses navigate new programs like PPP. CARES included $275 million for programs that support resource partners like Women's Business Centers and Small Business Development Centers, but I think many of us here would like to see additional resources provided for these programs.

QUESTION 1:

Has your WBC received any additional resources through CARES?

RESPONSE 1:

We received $420,000 in April for WBC COVID-19 recovery services.

QUESTION 2:

If so, then how has your organization used these additional resources?

RESPONSE 2:

When funds were received, we immediately hired two additional WBC Business Consultants to focus on COVID-19 relief and recovery and are in the process of hiring a third. These Business Consultants will work one-on-one with WBC clients to provide, guidance, access to resources, assistance with loan application, reworking business plans and opening safely.

We are also working to design and facilitate virtual training sessions with subject matter experts offering live webinars and pre-recorded sessions. These trainings will focus on COVID-19 recovery with subjects such as marketing in a post COVID-19 Marketplace, ensuring bookkeeping is sufficient for CARES Act compliance, safe customer service practices for social distancing and regular sessions on new and changing resources available, among others. We ask each client about their training needs and design new trainings on subjects that they request. We will also retain a Marketing and an Accounting Consultant to work directly with entrepreneurs who would otherwise not be able to afford those services.

MCE will also host and facilitate a COVID-19 recovery conference and resource fair once it is safe to do so.

QUESTION 3:

If not, then how would additional resources be helpful?

RESPONSE 3:

Providing support for "smaller" businesses with limited access to resources: Mr. Rudolph, based on your testimony it sounds like your organization is really focused on what many people would consider "smaller" businesses—including those with 10 and fewer employees. Many times these businesses lack the necessary resources to navigate federal programs, even though they have the greatest need for these programs.

We agree with the above statement. Often our micro-enterprises (businesses with less than 10 employees) do not have a bookkeeper or accountant. Because of this they either cannot or are too afraid to take advantage of a resource like PPP. They fear that a mistake on a form or an unexpected expense will cause them to have to pay back the loan. The technical assistance funding we received is helping us mitigate these concerns.

QUESTION 4:

What has been your experience working with these "smaller" businesses dealing with COVID-19?

RESPONSE 4:

Our primary takeaway is that these entrepreneurs are frightened and confused when they come to us. The often fear that no help is coming or that it will difficult, if not impossible to obtain. These clients are often looking for emergency funding to keep them afloat. We have been able to help these clients navigate the EIDL and PPP loan process. Once they have a plan in place, their fears usually subside.

Regarding technical assistance, most are concerned with reopening safely, what will happen if we shut down again, ensuring compliance for PPP and negotiating with landlords for rent relief related to COVID-19. We also still receive requests for our usual services like business plan and cash flow planning services.

QUESTION 5:

What challenges have they faced, and how has your organization worked with them to address these challenges?

RESPONSE 5:

One of the most common challenges we see is figuring out how the businesses will pay rent during and immediately after the pandemic. Stores that are open are not seeing the same level of business as before the pandemic. They fear they will have to close and have thousands of dollars of debt owed to landlords. They fear that without assistance they will go bankrupt because of this debt. Unfortunately, all we can do with current resources is counsel them on negotiating a payment plan or some forgiveness, but that is not sustainable. It is my fear that without direct rental assistance most micro-enterprises will close and a large portion of them will file for bankruptcy negatively impacting the entire economy.

When there was a large push for EIDL and PPP loans we mostly saw clients looking for help with applying and monitoring their application. Thanks to training and guidance from the SBA, we can guide clients through this process. I would also like to note that the continued improvements to the online system and CARES Act as a whole have made this much easier and more streamlined.

Other clients are looking for guidance for safe reopening, new marketing plans, updating business models for an increasingly virtual small business economy and similar issues. We are working with these clients one-on-one as we develop web-based training programs to cover these topics.

QUESTION 6:

What changes should we consider to provide additional support for these businesses?

Providing clear guidance about PPP
Mr. Rudolph, your organization has worked closely with borrowers that have applied for loans through PPP. We know that when the program launched there were many lenders and borrowers who were frustrated by a lack of clear guidance during the loan application process.

Treasury and SBA recently released guidance about the loan forgiveness process. However, I understand this guidance may be complicated, especially for smaller businesses that do not have access to resources like accountants.

RESPONSE 6:

The change to extend length of time PPP can ease the restrictions of the forgivable loans are a huge step in the right direction. Still, it is difficult to balance making the program more accessible and ensuring that taxpayer dollars are spent properly. The following are few things that might make the program work better for micro-enterprises.

1. While the new guidance and rules help, the language around them can be confusing to perspective borrowers. A simple solution might be for the SBA to publish one-page flyer with either a flow chart or listed steps from application to forgiveness would make the PPP program easier for our smallest borrowers to understand. An official document would be more trusted than one a CDFI creates and would ensure accuracy.

2. Providing automatic forgiveness for loans under a certain dollar amount. A business with 10 employees making an average of $50,000 would be eligible for about $135,000 according to the original rules. Based on that I would recommend automatic forgiveness with a signed assurance of compliance for all loans under $150,000 and would comfortable extending that to $250,000 - $500,000 to capture some larger small businesses. This would create a level of comfort among our smallest clients.

QUESTION 7:

With respect to the recent guidance that has been released for PPP, are there any questions or concerns that still need to be addressed—particularly to make the loan application and forgiveness processes easier for smaller businesses?

RESPONSE 7:

The SBA has done a great job providing guidance and communication about the PPP and EIDL programs to both borrowers and CDFIs. The truth is that some entrepreneurs will never feel comfortable with this type of program. Outside of the above suggestions in Question 6 and existing resources, I am not sure what else can be done. Perhaps a short webinar that is updated weekly to the SBA website and social media would keep the program top of mind and ensure everyone access to the newest information multiple formats. Another valuable resource would be an SBA hosted peer exchange so that small businesses can learn about the experiences of other small business owners who have participated in the program

QUESTION 8:

Are there any changes you would recommend to make these process easier for businesses?

Providing greater transparency in EIDL
Mr. Rudolph, your organization has also worked closely with borrowers that have applied for loans through EIDL. I have heard from many businesses that have expressed concerns about a lack of transparency in the program related to where their loans were in the application process.

RESPONSE 8:

The EIDL program is a much needed, strong and nimble resource for our small businesses. Even though there is frustration with the process on the part of the borrowers, those frustrations often are forgotten upon funding. This not different from the experience of many clients who seek traditional loans in normal times as borrowers are both excited to get started with their project and stressed about finances. There are a few things that would make the program more accessible to our clients.

1. Updated step-by-step tracking via a confirmation number given to applicants would mitigate the stress applicants feel due to lack of updates.

2. Clearer guidance on the maximum loan amount, eligible business types and grant portion would be helpful. As with PPP borrowers, smaller business owners do not have the time or bandwidth to read lengthy policies and guidelines. A simple one-page flyer with a bulleted information and links to detailed policies would help businesses better understand the process.

3. Converting the first $10,000 of every EIDL loan to a grant would be helpful for existing borrowers and new applicants. The truth is that the smallest businesses need the grant portion most. While it may be only a portion of a loan, $10,000 is often 3-5 months rent for our businesses. This could be the difference between remaining open and closing for 'mom and pop shops' without non-family employees.

QUESTION 9:

Have any of the businesses you have worked with expressed similar concerns about the EIDL loan application process?

RESPONSE 9:

The most common concerns among our clients related to EIDL is the lack of transparency during the application and review period and questions about why they are not getting the full grant portion. There is concern that only agricultural businesses can get these loans. Guidance explain that other business types are eligible would be helpful. Outside of those small concerns, the process has become very streamlined and easy to navigate.

MCE and other CFDIs would be happy to work with the SBA as publications are created to help ensure they are answering our small business client concerns. The SBA has been instrumental in our successes so far and we are happy to help them whenever we can.

QUESTION 10:

What changes should we consider to make the process more transparent for businesses?

RESPONSE 10:

The above suggestions about updated tracking, grant forgiveness and eligibility would alleviate almost all the concerns our borrowers feel. EIDL is a great program for all small businesses. Its rate and term will make it the most important tool in our arsenal as we move forward.

Continued funding for the EIDL program for at least three years after the pandemic subsides will be imperative to the survival of our small businesses and health of our economy as a whole. Our small businesses rely on each to thrive and create local economies. For example, losing day care centers will make it more difficult for other businesses to reopen because staff will be worried about childcare. EIDL is not a gift to businesses, it is an investment in our nation's future.

Sen Inhofe Statement for the Record – Oklahoma Small Businesses Benefit from the Paycheck Protection Program

As you and many members on this Committee have expressed today, the Coronavirus pandemic has placed a significant strain on our nations businesses. Particularly on our small and family owned businesses that rely on their revenues to maintain household needs. This is especially true for my home state of Oklahoma with small businesses representing 99.4 percent of businesses in the state. Thankfully, due to the establishment of the Paycheck Protection Program – over 60,000 small businesses from Oklahoma have received a total of $5.4 billion in relief. Small businesses continue to show their resiliency and overall value in contributing to our state's economy. I look forward to continuing to work with them as we weather this storm

Statement for the Record – Quote from Tim Miller, MBA, Retired Special Forces, Owasso Auto Care

"I started Owasso Auto Care in January of 2012. We are a very small company with 3 to 4 employees but we serve a very important role in our community. We all live in the community and we all support our community by buying products locally and supporting our local small businesses. During the COVID-19 Pandemic we were considered an essential business so we stayed open but because so many folks were out of work our business suffered immensely. My employees have families and they needed to work so my wife and I decided to pay them out of our personal savings to help them and their families. The SBA Loan Program for small business's saved our livelihoods. Without this program I would have had to shut my doors and I may not have been able to re-open again. I want to personally thank President Trump for introducing a program for small businesses like mine".

Index Summary

NEW REPORT SHOWS MANY SMALL BUSINESSES HAVE REOPENED

BUT GROWING NUMBER BELIEVE RECOVERY WILL TAKE MORE THAN SIX MONTHS

American small businesses report they have reopened in some capacity and are showing signs of optimism about the future, even while still dealing with many ongoing challenges related to the pandemic, according to the latest MetLife & U.S. Chamber of Commerce Small Business Coronavirus Impact Poll.[1]

This month, we find that small businesses' level of concern about the impact of COVID-19 has subsided slightly. Overall, 82% of small businesses are concerned about the impact of the pandemic, similar to the last two months of the survey. However, the number of small businesses reporting they are *very* concerned is now 43%, a 10 percentage-point drop from a month ago, and a 15-point drop from two months ago.

Perceptions of cash flow and revenue have also improved. 56% feel comfortable with their company's cash flow situation, up from last month's low of 48% and similar to late March (59%). Also, 50% expect next year's revenues to increase, while 19% expect them to decrease. Last month, 47% expected an increase in revenue and 25% expected a decrease in revenue.

Most small businesses report being at least partially open. 79% of small businesses are either: fully (41%) or partially (38%) open. One in five are closed, either temporarily (19%) or permanently (1%). However, most believe it will take longer for the small business economic climate to return to normal: 55% of small businesses believe it will take six months to a year before the U.S. business climate returns to normal, up from 50% last month and 46% two months ago.

More than eight in ten small businesses report that they are making, or planning to make, adaptations in response to the coronavirus. Nearly half (48%) have either started, or plan to start, more frequent cleaning/disinfecting of surfaces, while 44% are asking, or plan to ask, employees to self-monitor for symptoms and stay home if they feel sick. Four in ten are also making, or planning to make, adaptations around employees wearing protective gear (40%) or requiring six feet of distance (39%) between employees and customers.

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[1] *The MetLife/U.S. Chamber of Commerce Small Business Coronavirus Impact Poll was conducted via a monthly online survey, in place of the typical phone-based approach. This methodological shift is in response to anticipated lower response rates in dialing business locations as a result of mandated closures related to the COVID-19 outbreak. During Q2, we fielded three waves, each one month apart, with each survey comprised of 500 respondents. Results of the June survey are summarized in this report. While significant changes in data points can largely be attributed to the recent economic environment, switching from a phone to online approach may have also generated a mode effect.*

Overall, sentiment toward the economy remains similar to last month, but negative sentiments toward the U.S. economy are softening. 53% of businesses believe their business is in good health (50% last month). One in four (24%) rate the U.S. economy as “good,” compared to 21% last month. 27% believe their local economy is in good health (last month the finding was 25%). However, the number of small businesses saying the U.S. economy is in “very poor” health has shrunk to 18%, from 29% last month.

Index Highlights

- **Most businesses are partially open.** Seventy-nine percent of small businesses are either fully (41%) or partially (38%) open. One in five are closed, either temporarily (19%) or permanently (1%). 51% of small businesses in the South report they are fully open.
- **Most say it will take longer for the business climate to return to normal.** Fifty-five percent of small businesses believe it will take six months to a year before the U.S. business climate returns to normal (up from 50% last month and 46% two months ago).
- **More than eight in ten small businesses report that they are making or planning to make adaptations in response to the coronavirus.** Of those doing so, nearly half (48%) of small businesses have either started, or plan to start, more frequent cleaning/disinfecting of surfaces, while 44% are asking, or plan to ask, employees to self-monitor for symptoms and stay home if they feel sick. Four in ten are also making, or planning to make, adaptations around employees wearing protective gear (40%) or requiring six feet of distance between employees and customers (39%).
- **Fewer businesses are *very* concerned about the coronavirus' impact.** The number of small businesses reporting they are *very* concerned about the impact of COVID-19 is now 43%, a 10 percentage-point drop from a month ago and a 15-point drop from two months ago.
- **Most larger small businesses concerned about lawsuits.** Two-thirds (67%) of small businesses with 20-500 employees are concerned about the possibility of lawsuits related to the coronavirus. Those with less than five employees are less concerned at 22%.
- **Negative sentiments toward the economy are softening.** Twenty-four percent of small businesses rate the U.S. economy as "good," (21% last month). However, the number of small businesses saying the U.S. economy is in "very poor" health has shrunk 11 points to 18% (29% last month).
- **Business health steady overall, increases substantially in Northeast.** 53% of small businesses report good overall health (similar to last month's 50%). Retailers continue to report the lowest percentage of those in good health (46%), while small businesses in the Northeast saw an increase in good health since last month: from 41% to 59% this month.
- **Revenue expectations improve.** Now, 50% expect next year's revenues to increase, while 19% expect them to decrease. Last month 47% expected an increase and 25% expected a decrease.
- **Cash flow improves.** Cash flow has been a perennial concern for small businesses during the pandemic. Currently, 56% feel comfortable with their company's cash flow situation, up from last month's low of 48%, and in line with findings in late March (59%).
- **Fewer see poor local economy.** Slightly more believe their local economy is in good health (28%, similar to last month's 24%). This month, fewer perceive their local economy's health to be poor (38% believe it is in poor health vs. 50% last month), and more say it is average (33% vs. 25% last month).
- **Most firms which shed workers anticipate rehiring them.** Seventy-one percent of small businesses say they have the same number of employees as in February before the pandemic began. Among those that report having fewer employees now, more than half

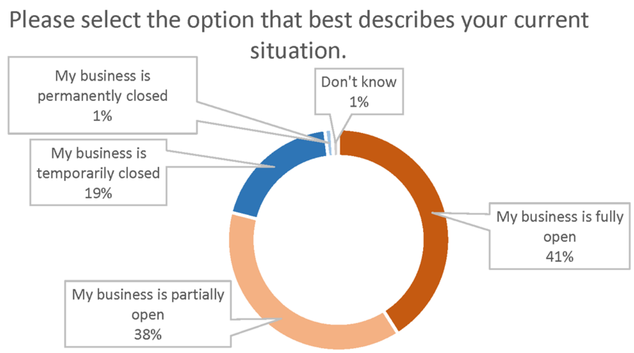
(55%) anticipate rehiring or bringing back most workers at some point in the next six months.

Spotlight: The Impact of the Coronavirus on Small Business

MOST SMALL BUSINESSES REPORT AT LEAST PARTIAL REOPENING

Nearly eight in ten small businesses are at least partially open, and most are making—or plan to make—adaptations regarding business operations.

Nearly a quarter (23%) of small businesses report temporarily closing their business entirely since the start of the COVID-19 pandemic. As of right now, however, eight in ten report they are either fully (41%) or partially (38%) open.



Retail small businesses are reporting more temporary business closures, and they are the least likely to be fully operational. Currently, 29% of retail businesses report having temporarily closed their business at any point since the COVID-19 pandemic began, and 43% say they are partially open, versus 32% who are fully open.

Current operating status not only varies by sector, but by region and business size. Small businesses in the West region are more likely to be only partially open, while more in the Northeast remain temporarily closed when compared to other regions. Nearly half of the smallest businesses remain fully open and are least likely to say they are temporarily closed.

Please select the option that best fits your current situation.	Total	Region				Employee Size			Industry			
		North-east	Mid-west	South	West	Less than 5	5-19	20+	Manu-facturing	Services	Retail	Prof. Services
My business is fully open	41	37	39	51	31	45	35	33	48	38	32	51
My business is partially open	38	37	38	31	49	38	38	41	33	36	43	37
My business is temporarily closed	19	25	19	16	19	15	25	26	19	22	24	11
My business is permanently closed	1	1	1	1	1	0	2	0	0	1	1	0
Don't know	1	0	2	1	0	1	0	0	0	2	0	1
Open	*79*	*74*	*77*	*82*	*80*	*83*	*73*	*74*	*81*	*75*	*75*	*88*
Closed	*20*	*26*	*20*	*17*	*20*	*16*	*27*	*26*	*19*	*23*	*25*	*11*

For small businesses who reported a temporary closure at some point since the start of the COVID-19 pandemic (23%), 43% have reopened. At present, 19% of all small businesses remain temporarily closed, while just 1% have closed permanently. Those who are still temporarily closed are split on if they will open in the next two weeks (49% say it is likely, 47% say unlikely).

Most small businesses[2] are concerned about the financial hardships due to prolonged business closure (71%), and more than half worry about having to permanently close their business (57%). Looking ahead, 66% are concerned about having to stay closed, or closing again, if there is a second wave of COVID-19. More are anxious about this in the West (77%) and Northeast (74%) than in the Midwest (62%) and South (55%).

[2] Note: the 1% of businesses that report being permanently closed were not asked this question.

MOST SAY IT WILL TAKE LONGER FOR BUSINESS CLIMATE TO RETURN TO NORMAL

Currently, 55% of small businesses believe it will take six months to a year before the U.S. business climate returns to normal (with another 6% saying it never will), up from 50% last month and 46% two months ago. Retailers are most optimistic, with 43% predicting normal operations in under six months, followed by manufacturing (37%). 27% and 26% among professional service and services small businesses, respectively, predict normal operations in under six months.

Though small businesses now think it will take longer for the business climate to get back on track, they are more optimistic about their own projections. For small businesses who have not shut down entirely, most believe they can continue to operate without permanent closure for six months or more (52%), up from 44% last month. Interestingly, smaller-sized businesses with less than five employees are most likely to believe they can continue to operate indefinitely (37%), while mid-sized and larger-sized small businesses are less optimistic (27% with 5-19 employees and 14% with 20-500 employees).

How long do you believe your business can continue to operate without shutting down permanently?	Total	Less than 5 employees	5-19 employees	20+ employees
Less than a month	3	4	1	1
1-2 months	12	9	18	18
3-under 6 months	21	16	24	39
6 months-1 year	21	19	24	25
Indefinitely	31	37	27	14
Don't know	11	15	7	3
Under 6 months	*36*	*29*	*43*	*58*
6 months or more	*52*	*56*	*51*	*39*

FIRMS WHICH SHED WORKERS ANTICIPATE REHIRING THEM

71% of small businesses say they have the same number of employees as in February before the pandemic began. Among those that report having fewer employees now, more than half (55%) anticipate rehiring or bringing back most workers at some point in the next six months.

Manufacturers are most likely across sectors to report a change in number of employees compared to before the pandemic, with 14% saying they have more (2-4% across other small business sectors) and 30% saying they have fewer employees (17-26% across other sectors).

MOST ARE ADAPTING TO COPE WITH THE PANDEMIC

More than eight in ten small businesses report that they are making, or planning to make, adaptations in response to the coronavirus. Of those, nearly half (48%)of small businesses have either started, or plan to start, more frequent cleaning/disinfecting of surfaces, while 44% are asking, or plan to ask, employees to self-monitor for symptoms and stay home if they feel sick. Four in ten are also making, or planning to make, adaptations around employees wearing protective gear (40%) or requiring six feet of distance between employees and customers (39%).

The most common response to the outbreak has been shortening hours of operations (30% have done so since the start of the pandemic). One in five (22%) report transitioning some or all of their employees to teleworking, and another 20% have sought capital from other sources—a 15-percentage point increase from last month.

The smallest-sized businesses (fewer than five employees) are least likely to report adjusting employee salaries or hours (17%, versus 39% of businesses with 5-19 employees, and 44% of businesses with 20 or more employees), furloughing employees (7%, versus 14% of mid-sized, and 24% of larger-sized businesses) or laying off employees (10%, versus 26% of mid-sized, and 23% of larger-sized businesses).

Though small businesses are pressing onward, concerns abound. Two-thirds (67%) are anxious about the low business demand due to continued social distancing measures. Sixty-two percent are concerned about the risks COVID-19 poses to their customers and employees. Half (48%) are worried about the lack of guidance on proper reopening procedures.

As small businesses adapt to the new environment, three in ten anticipate needing more guidelines on how to keep customers and employees safe and well. This month, less see a need for more loans and financial assistance (26%, down from 35% last month) over the next few months. Around one in five expect needing more guidance from political leaders on how to respond (21%), more resources for understanding the outbreak (20%), and guidance on healthcare, insurance, or accounting issues (19%).

While few report a need for more legal advice (15%) and liability insurance (13%) over the next few months, a newer concern for some small businesses is the possibility of lawsuits related to the coronavirus. Overall, more than one in three (36%) are concerned, including a majority (51%) of mid-size small businesses and two-thirds (67%) of larger small businesses who are worried by this possibility. The smallest employers (fewer than five employees) are the least concerned with just over one in five (22%) expressing concern about these lawsuits. Manufacturers (43%) and retailers (40%) are most likely to express worry about lawsuits, with less in professional services (33%) and services (30%) sharing the sentiment.

AMONG PPP USERS PAYING EMPLOYEES REMAINS TOP PRIORITY

This month, three in ten (29%) of the small business population has applied, or tried to apply, for a Paycheck Protection Program (PPP) loan. This includes those who have applied for a loan but did not receive it (7%), those who tried to apply but were unsuccessful (7%), and those who applied for and received a loan (15%, up from 9% last month).

Eight percent of small businesses report that they are planning on applying for a PPP loan, down five percentage points from last month (13%). As noted in this report above, fewer report a need for loans and financial assistance this month compared to last month.

Paying current employee salaries and benefits remains the top intended use among those who have gone through the PPP application process, or plan to (36%, nearly unchanged from last month), while paying for rent or utilities has fallen six points to 15% from 21% last month.

KEY FINDINGS

SMALL BUSINESS OPERATIONS

BUSINESS HEALTH STABILIZES, WHILE CASH FLOW IMPROVES

This month, small businesses report improving cash flow and stabilizing views of their own business health.

Overall health among small businesses remains statistically unchanged from last month. This month, 53% report good health (compared to 50% last month). This represents a decrease of four percentage points from two months ago and 12 points from Q1 2020.

As seen throughout the second quarter, manufacturing (60%) and professional services (57%) are the most likely to report good health, while those in retail (46%) remain the least likely to do so. By sector, small businesses in the services industry saw the largest increase in optimism regarding business health since last month, a six-point increase to 51%.

Reported small business health has increased significantly in the Northeast to 59%, from 41% last month. The Northeast and South (57%) are now the most likely to report good health, with the Midwest and West trailing behind (both 47%). The smallest businesses remain the least optimistic, by size: only 45% report good health compared to 64% and 71% of mid- (5-19 employees) and large-sized (20+) small businesses, respectively.

This month, pessimism surrounding cash flow has lessened, with 56% of small businesses reporting comfort with their cash flow—closer to what was seen two months ago (59%) from last month's low (48%). This measure still remains dramatically low, after falling from 80% or higher before the start of the pandemic.

While small businesses across all regions feel more optimistic about their cash flow, those in the Northeast report the largest increase (54% now, up 16 percentage points from last month). Additionally, retail (58%) and services (50%) small businesses also experienced spikes in optimism, increasing 17 and 11 points, respectively, but still falling behind the continued optimism felt by professional services (62%). The smallest businesses are still least likely to report comfort with their cash flow (50%, compared to 66% of mid-sized and 64% of large-sized small businesses).

KEY FINDINGS

SMALL BUSINESS ENVIRONMENT

FEWER SEE 'VERY POOR' NATIONAL ECONOMY

Sentiments toward the national economy are softening slightly from last month, but a majority still perceive it as "poor" (57% vs. 63% last month). While nearly three in ten small businesses (29%) rated the U.S. economy "very poor" last month, just 18% feel the same this month. Across regions, those in the Midwest (22%) and West (27%) are now more likely to perceive the U.S. economy as good when compared to last month (up six and seven points, respectively), and those in the Northeast and South are unchanged.

Slightly more small businesses perceive their local economy as in good health (28%) when compared to the national economy (24%). This month, fewer perceive their local economy's health to be poor (38% believe it is in poor health vs. 50% last month), and more say it is average (33% vs. 25% last month). Optimism is greatest among large-sized small businesses (20+ employees): 42% believe their local economy is in good health.

KEY FINDINGS

SMALL BUSINESS EXPECTATIONS

60% OF SMALL BUSINESSES EXPECT TO RETAIN SAME AMOUNT OF STAFF

Small businesses are slightly more optimistic about future revenues than last month. Half (50%) expect to see an increase (was 47% last month), compared to 19% that expect next year's revenues to decrease (was 25% last month).

Small businesses continue to feel uncertain about their future investments. Currently, 27% report expectations to increase investment, statistically unchanged from last month's 25%. As seen previously, a fair amount (16%) are unsure whether they will increase or decrease investment in the next year.

Despite ongoing closures, retailers are still hopeful about the future. Thirty-four percent anticipate increasing investments in the upcoming year (compared to 27% among manufacturing, 26% among professional services, and 20% among services). With reopening economies, small businesses in the services industry are more likely this month to foresee an increase in investments in the next year (20% vs. 13% last month). Even so, they remain the least optimistic, as we saw last month, with fewer predicting increases in revenue, staffing, or investment than other sectors.

Expectations to hire also remain mostly unchanged from last month. A quarter (23%) anticipate increasing staff (24% last month), while most (60%) plan to retain the same staffing size (55% last month). Like last month, one in 10 plan to reduce staff (13% last month).

NOTE: The latest Small Business Coronavirus Impact Poll was in the field May 21 – 27, 2020, prior to the civil unrest now gripping cities across our country.

U.S. Chamber Resources for Small Businesses
For small business resources on the coronavirus, visit uschamber.com/co.

Step-by-step guidelines on applying for a loan through the Paycheck Protection Program are available at uschamber.com/sbloans.

A guide to the Small Business Administration's expanded Economic Injury Disaster Loan Program (EIDL) program to assist small businesses is available at uschamber.com/report/guide-sbas-economic-injury-disaster-loans.

A guide to CARES Act Relief for independent contractors or those who are self-employed and don't have any employees is available at https://www.uschamber.com/report/independent-contractors-guide-cares-act-relief.

Methodology

SURVEY METHODOLOGY
These are the findings of an Ipsos poll conducted between May 21-27, 2020. For this survey, a sample of roughly 500 small business owners and operators age 18+ from the continental U.S. Alaska and Hawaii was interviewed online in English.

The sample for this study was randomly drawn from Ipsos' online panel, partner online panel sources, and "river" sampling and does not rely on a population frame in the traditional sense. Ipsos uses fixed sample targets, unique to the study, in drawing sample. Small businesses are defined in this study as companies with fewer than 500 employees that are not sole proprietorships. Ipsos used fixed sample targets, unique to this study, in drawing sample. This sample calibrates respondent characteristics to be representative of the U.S. small business population using standard procedures such as raking-ratio adjustments. The source of these population targets is U.S. Census 2016 Statistics of U.S. Businesses dataset. The sample drawn for this study reflects fixed sample targets on firmographics. Post-hoc weights were made to the population characteristics on region, industry sector and size of business.

Statistical margins of error are not applicable to online non-probability polls. All sample surveys and polls may be subject to other sources of error, including, but not limited to coverage error and measurement error. Where figures do not sum to 100, this is due to the effects of rounding. The precision of Ipsos online polls is measured using a credibility interval. In this case, the poll has a credibility interval of plus or minus 5.0 percentage points for all respondents. Ipsos calculates a design effect (DEFF) for each study based on the variation of the weights, following the formula of Kish (1965). This study had a credibility interval adjusted for design effect of the following (n=500, DEFF=1.5, adjusted Confidence Interval=+/-6.5 percentage points).

Percentage breakdowns for region, employee size, and sector:

Manufacturing and Resources	18%
Services	25%
Retail	24%
Professional services	28%
Other	5%

Employee Size: 1-4	61%
Employee Size: 5-19	27%
Employee Size: 20-99	9%
Employee Size: 100+	2%

Northeast	20%
Midwest	21%
South	34%
West	25%