

LONG-LASTING SOLUTIONS FOR A SMALL BUSINESS RECOVERY

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WEDNESDAY, JULY 15, 2020

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The committee met, pursuant to call, at 1:03 p.m., via Webex, Hon. Nydia M. Velázquez [chairwoman of the Committee] presiding.

Present: Representatives Velázquez, Finkenauer, Kim, Mfume, Chu, Evans, Schneider, Delgado, Houlahan, Craig, Chabot, Hern, Stauber, Burchett, Spano, and Bishop.

Chairwoman VELAZQUEZ. Good afternoon. I call this hearing to order. Without objection, the Chair is authorized to declare a recess at any time.

I want to thank everyone for joining us this afternoon for this official remote hearing. I want to make sure to note some important requirements.

Let me begin by saying that standing House and committee rules and practice will continue to apply during remote hearings. All Members are reminded that they are expected to adhere to these standing rules, including decorum.

With that said, during the covered period as designated by the Speaker, the committee will operate in accordance with H.R. 965 and the subsequent guidance from the Rules Committee in a manner that respects the rights of all Members to participate.

House regulations require Members to be visible throughout a video connection during the proceedings, so please keep your cameras on. Also, if you have to participate in another proceeding, please exit this one and log back in later.

In the event a Member encounters technical issues that prevent them from being recognized for their questioning, I will move to the next available Member of the same party, and I will recognize that Member at the next appropriate time slot, provided they have returned to the proceedings.

Should a Member's time be interrupted by technical issues, I will recognize that Member at the next appropriate spot for the remainder of their time once their issues have been resolved.

In the event a witness loses connectivity during testimony or questioning, I will preserve their time while staff addresses the technical issue. I may need to recess the proceedings to provide time for the witness to reconnect.

Finally, remember to remain muted until you are recognized to minimize background noise.

In accordance with the rules established under H.R. 965, staff have been advised to mute participants only in the event there is inadvertent background noise. Should a Member wish to be recognized, they must unmute themselves and seek recognition at the appropriate time.

Thank you.

Since February, the outbreak of COVID-19 has taken a significant toll on the entire U.S. economy. This crisis has hit America's small businesses especially hard. Three out of four small businesses have been experiencing a decrease in revenue since March, and an estimated 7.5 million small businesses are at risk of permanent closure as a result of this crisis.

As Members of this committee and as legislators at the federal level, we have a responsibility to secure funds to help America's small businesses survive this crisis. So far Congress has allocated over \$669 billion in grants and loans through the Paycheck Protection Program, the Economic Injury Disaster Loan program, also known as EIDL, and a new EIDL emergency grant program.

From the outset, Congress intended for the PPP and EIDL programs to provide immediate relief for small businesses to withstand the initial economic shock caused by this pandemic. As we approach August, we cannot ignore the reality that the COVID-19 pandemic has morphed into a much more devastating and extensive crisis than even some experts had anticipated, and the rhetoric coming from this administration downplaying the seriousness of COVID-19 undoubtedly led many states to rush to reopen, ultimately exacerbating the problem.

We must be prepared with long-term solutions that will meet the magnitude of this crisis as we push forward to heal as a Nation and find better days ahead. We can start by examining the policies adopted during and in the aftermath of the Great Recession as a model moving forward.

While we must recognize the inherent differences in these two devastating events for our nation, we must also remember that back in 2008 the outlook for small businesses was similarly uncertain.

In response to the Great Recession, Congress stepped in and passed a series of bills that provided \$1.2 billion for small businesses through the SBA lending programs. This critical step unlocked tens of billions of dollars in guaranteed loans to small businesses that could not otherwise access capital when traditional credit markets froze.

Policies enacted then proved to be a critical lifeline for thousands of small businesses in danger of closing their doors.

At the same time the Obama administration focused on how small businesses could help contribute to America's recovery by accelerating entrepreneurship and unlocking capital for the nation's smallest and youngest businesses.

This money was well spent as small businesses were some of the largest contributors to job growth in the recovery, especially minority-owned and women-owned businesses who alone were responsible for the addition of 1.8 million jobs from 2007 to 2012.

The nation's investment in entrepreneurship paid off as the United States saw more than 550,000 new businesses open since 2011 and the economy continued to grow.

Because of the economic contributions from small employers and independent contractors after the Great Recession, it is imperative for this committee to explore those proposals and how we can modify them for the COVID-19 era.

I also welcome any discussion of any new ideas brought to the table by Members to address the challenges our small businesses are facing today.

Whether it is utilizing traditional SBA programs or instituting innovative ideas, long-term recovery requires us to think out of the box, but also come together in a bipartisan fashion to provide relief to small employers.

As Congress works to explore additional ways to help America reopen and recover, I hope we continue to prioritize the smallest of small businesses, minority-owned and women-owned businesses, the ones that helped rebuild our nation the last time we found ourselves knee-deep in what felt like an insurmountable crisis.

Again, I want to thank the panelists for joining us here today.

I now yield to the Ranking Member, Mr. Chabot, for his opening statement.

Mr. CHABOT. Thank you, Madam Chair. And thank you for holding this hearing today.

On this Committee we know how important small businesses and startups and entrepreneurs are to the economy. However, one of the consequences of this global pandemic is that our Main Streets are in very real danger of long-lasting damage or, in the worst case, permanent closure.

Some have warned we could be in only the beginning of the worst wave of small business bankruptcies and closures since the Great Depression. We must be proactive and effective in our attempts to not only sustain but recover and expand the influence of America's small businesses and Main Streets all over the country.

Recent research from universities such as Harvard, the University of Chicago, the University of Illinois, and others have found that some small businesses, especially microenterprises, may be the most susceptible to permanent closure. We must work together and listen to those like our witnesses here today who know and appreciate that critical segment of our economy.

As communities reopen, we hope to find solutions that lead to fewer headlines indicating small businesses are closing and focus more on the recovery on which we are about to embark.

I look forward to the testimony of all our witnesses here today and to our continued partnership on this Committee.

And I thank the Chairwoman for again working with me and for our side of the aisle in making this, I think, the most bipartisan Committee in Congress. And that is why we are so effective in, for example, for putting together the PPP program and trying to reform the EIDL loan program and so many other things.

So I want to thank the Chairwoman for her continued cooperation.

And I yield back. Thank you.

Chairwoman VELÁZQUEZ. Thank you, Ranking Member. It is a pleasure, and it has been an example of how we need to do the job on behalf of the American people.

Now I would like to take a moment to explain how this hearing will proceed. Each witness will have 5 minutes to provide a statement and each committee Member will have 5 minutes for questions. Please ensure that your mic is on when you begin speaking and that you return to mute when finished.

With that, I would like to thank our witnesses for taking time out of their busy schedules to join us.

Our first witness is Mr. Brett Palmer, the President of the Small Business Investor Alliance. In this role he works to foster a healthy environment for small businesses investing in a strong and profitable lower middle market.

Mr. Palmer served in the executive branch from 2002 through 2005 as a Presidential appointee in the Commerce Department as Assistant Secretary for Legislative Affairs, and as Deputy Assistant Secretary for Trade Legislation. He holds a history degree from Davidson College.

Our second witness is Ms. Amanda Cohen. Ms. Cohen is a James Beard-nominated chef and owner of Dirt Candy, the award-winning vegetarian restaurant in New York City's Lower East Side in my district. Her restaurant was the first vegetable-focused restaurant in the city and is a pioneer of the vegetable-forward movement and is included on the list of the ten restaurants that changed America. She received two stars from The New York Times and was recognized by the Michelin Guide 5 years in a row.

Welcome.

Our third witness is Dr. Lisa Cook. Dr. Cook is a professor of economics at Michigan State University. Prior to joining the faculty at Michigan State, she was a senior economist at the President's Council of Economic Advisers from 2011 through 2012. She also held positions at the National Bureau of Economic Research, the Federal Reserve Banks of Minneapolis, New York, Philadelphia, the World Bank, the Brookings Institution, and the Hoover Institution.

Welcome, Ms. Cook.

Now I would like to turn it over to the Ranking Member, Mr. Chabot, to introduce our last witness.

Mr. CHABOT. Thank you very much, again, Madam Chair.

And our final witness is a fellow Cincinnati, Pete Blackshaw. Mr. Blackshaw is CEO of Centrifuse, a startup incubator created by Proctor & Gamble, or P&G as a lot of people refer to it, Kroger and Western & Southern and other major entities in our greater Cincinnati community.

He previously served as global head of digital marketing and social media at Nestle's global headquarters in Switzerland. He recently served as Chairman of the board of the National Council of Better Business Bureaus and is now chairing a recently chartered supply chain and new commerce restart committee.

Pete is a graduate of Harvard Business School and the University of California, Santa Cruz.

I recently had the pleasure of meeting with Pete via an online platform with the Cincinnati Chamber of Commerce and I was

truly impressed with his forward thinking ideas on the recovery. I hope he was impressed, too, on the call.

I know he will provide valuable insight to the Committee, and I look forward to hearing all the witnesses here today.

And I yield back.

Chairwoman VELÁZQUEZ. Thank you, Mr. Chabot.

Thank you all for being here today.

I would now like to begin by recognizing Mr. Palmer for 5 minutes.

STATEMENTS OF MR. BRETT PALMER, PRESIDENT, SMALL BUSINESS INVESTOR ALLIANCE, WASHINGTON, DC; MS. AMANDA COHEN, CHEF AND OWNER, DIRT CANDY, NEW YORK, NY, TESTIFYING ON BEHALF OF THE INDEPENDENT RESTAURANT ASSOCIATION; DR. LISA D. COOK, PROFESSOR, MICHIGAN STATE UNIVERSITY, EAST LANSING, MI; AND MR. PETE BLACKSHAW, CEO, CINTRIFUSE, CINCINNATI, OH

STATEMENT OF BRETT PALMER

Mr. PALMER. Thank you, Madam Chairwoman. Thank you to the Committee for giving me the chance to share SBIA's view on how the small business investment companies can accelerate the recovery and create jobs for the long-term.

My name is Brett Palmer and I am president of the Small Business Investor Alliance, a trade association representing small business investors, including SBICs. SBICs are SBA-regulated venture capital and private equity funds that provide long-term capital into American small businesses.

For many, but not all, our economy was doing well prior to the pandemic and the ensuing government-mandated shutdowns. The economic disruption has exposed, amplified, and intensified pre-existing problems faced by the Nation's small businesses. It has also created new ones. These amplifications affect vast numbers of small businesses but the pain is not evenly spread by geography, industry sector, stage of business, or even race.

It is also important to remember that the job losses and business injury we have experience are only first-order effects of the pandemic. There is more coming, but we just don't know what.

We have faced hardship before. We know what good public policy can do to help bring the economy back faster and stronger and to benefit more Americans.

Now is the time to improve existing government programs to make sure they provide maximum benefit to as many Americans as possible. So policy adjustments should be made to address the immediate needs of small business in a way that takes into account past efficiencies and also meets future needs.

Instead of normal stimulus spending where the benefit is temporary, Congress now has the chance to focus on the long term and to empower and amplify the private sector that provides outsized job creation and sustainable benefits to communities by fully utilizing the SBIC program.

Our economic problems are intense and will be long-lasting, but access to patient capital is the core to many of the solutions to the challenges we face.

Improving the SBIC program will address some of these problems that previously existed:

Challenges accessing patient capital, which is particularly acute in low-income areas, both rural and urban, and even more acute for equity capital;

The massive concentration of venture capital and growth capital in only a couple of areas of the country, leaving the rest of us behind;

Large disparities in accessing startup and growth equity;

Underinvestment in domestic manufacturing and domestic production;

Underrepresentation by women and minorities in both funds and in small businesses accessing capital;

And there are too few small funds which provide smaller investments that would fit in smaller communities and less dense communities.

There are a host of new problems as well: massive unemployment and failure of many small businesses. And some estimates are that 22 percent of small businesses are now out of business, with the catastrophic failure of minority-owned small businesses with some estimates of 32 percent of Hispanic-owned businesses and up to 41 percent of Black-owned businesses lost. That is a national catastrophe.

The American entrepreneurial spirit is strong, but to reemerge and recover, small businesses will need to access patient capital. And patient capital is equity capital. It is long-term debt and equity-like debt, which is capital that can sustain the ups and downs and the fits and starts in any economy, even the pandemic.

We also need to remove unintentional barriers to minorities and women forming SBIC funds, and more SBIC funds need to be formed that are smaller and serving more parts of the country, because smaller funds really are able to handle smaller markets and serve smaller businesses.

So the SBA's framework is a good one, but this experience is a very different experience than the last recession and needs a tailored response to meet both the old needs that were unfulfilled and the new needs. So modifying the existing programs is faster and more affordable and effective than a lot of other things we could be doing.

So SBIA proposes a couple of changes to the existing program, not creating new programs, just modifying them. We would ask Congress to authorize an on-ramp to forming more first-time SBICs. A MicroSBIC license would remove unintentional barriers to minorities and women entering the program, while providing needed smaller-dollar investments across the country.

The SBIC program should also be modified to enable SBICs to provide more of the most patient, the most impactful, and the most job-creating capital: equity. When the Library of Congress looked at the SBIC program, they found that equity investments by small business investment companies commonly created over 400 or sometimes over 500 new jobs per investment, and we need those jobs.

There are also existing SBIC tools that provide patient equity-like capital, but they are currently limited by geography. These ge-

ographic restrictions should be lifted and made available to all small businesses?

And SBA should encourage and enable SBICs to look for opportunities to make investments in underserved communities, both rural and urban, by making additional leverage available for investments in LMI areas and in underserved communities.

And, finally, it would be very if SBA's Office of Investment and Innovation would be fully staffed and have the technology they need to be fully effective. They have been held back from that for years, and I think there is an opportunity for us to do more, and that would be a long-term investment that would provide long-term benefits.

I would also like to thank the Committee for having an oversight hearing on the SBIC program last fall. It was probably an oversight committee the likes of which I know I have never seen before in 25 years, but it was very helpful. And under Administrator Carranza's leadership it has been transformative and positive, and she has brought in Christopher Weaver to run the program, and it is really turned around and doing great.

So thank you for your oversight. Thank you for this hearing. I look forward to answering any questions.

Chairwoman VELÁZQUEZ. Thank you, Mr. Palmer.

Now I would like to recognize Ms. Cohen.

Please let me remind Members you need to keep your cameras on. Thank you.

Welcome, Ms. Cohen, for 5 minutes.

STATEMENT OF AMANDA COHEN

Ms. COHEN. Chairman Velázquez, Ranking Member Chabot, and distinguished members of this Committee, thank you so much for inviting me to testify today about my experience with the Paycheck Protection Program, the experience of other independent restaurants, and what this industry needs to survive the rest of the year and beyond.

My name is Amanda Cohen, and I am the chef and owner of Dirt Candy on the Lower East Side of Manhattan. Chairwoman Velázquez has been a longtime advocate for business owners like me, and I am honored to appear today as a voice for so many voiceless businesses.

Dirt Candy is a fine dining vegetarian restaurant in New York with about 40 seats and a bar. We started back in 2008 with just 18 seats but quickly outgrew our first location. And in 2015, we moved to this new one on the Lower East Side.

I am also honored to represent the leadership team of the Independent Restaurant Coalition, a newly formed coalition of thousands of chefs and restaurateurs across the country in every congressional district who organized for the first time in response to the pandemic.

We represent America's nearly 500,000 restaurants and nearly three-quarters of all dining establishments in the country who don't have the same access to significant debt instruments or private equity as corporate-owned businesses.

Today I am going to share the story of independent restaurants, how we use the PPP, and what we need to do to survive, which is really your help.

Dirt Candy reopened a week ago today for outside seating, the first time since New York's shutdown orders. Outdoor dining has forced us to dramatically alter our menu and processes for serving customers. A number of our dishes are really not conducive to heat, the rain, wind. And our seating is on a ramp to the Williamsburg Bridge, which really isn't the most romantic location.

I wasn't able to pay my employees during the shutdown. So many went on to unemployment or took other jobs. While I received a Paycheck Protection Program loan, I chose not to use the money at the start because it was unclear when we could reopen again. And if my fixed costs of running a business don't change and demand for dining out remains low, there is absolutely no way Dirt Candy can survive because there is a larger issue: Going out to a restaurant is not considered to be safe.

When the pandemic hit, I laid off all 35 employees at Dirt Candy. About 6 weeks ago, I rehired one person to help get the restaurant ready to reopen in its current form. As of today, I have only rehired 17 percent, or six, of my employees, and I don't plan on rehiring others for the foreseeable future.

This was only possible because of the PPP. In fact, the changes to the effective date of the PPP that this Committee worked on and which went into effect in June are the only reason I could afford to reopen Dirt Candy at all.

But even if my doors are open, there are still 29 more people who used to count on Dirty Candy for their well-being who are out of work.

Some independent restaurants cannot access the PPP because their bank took care of other customers first or rejected their applications. Others were afraid to use the loans they received and returned them because they could not afford to make a mistake and take on more debt.

Those who received and used the PPP loans are seeing them run out or not bridge the time needed to fund operations in this uniquely affected industry.

The one thing that would be enormously impactful for the restaurant industry is passing Congressman Earl Blumenauer's RESTAURANTS Act. The Chairwoman has cosponsored this bill, for which I am exceptionally grateful, as have eight more members of this Committee.

Independent restaurants generate \$271 billion in direct and indirect economic activity. Passing this bill would reduce the unemployment rate by 2.4 percent. As many as 85 percent of independent restaurants say they will close without direct help. Passing this bill would help avoid this disaster.

Restaurants need your help. As you can see from my testimony above, the PPP, with the significant changes Congress made in late spring, is an 8-week solution to an 18-month problem for restaurants. My PPP loan allowed me to reopen, but it is not going to allow me to stay open even if it is forgiven.

And Dirt Candy does not stand alone in this. Our restaurant support farmers, vintners, brewers, liquor purveyors, and an entire

supply chain. Most other restaurants can add fishers, ranchers, and other parts of the supply chain to this list.

And imagine planning a trip to New York, Chicago, San Francisco, Charleston, Atlanta, or Washington, D.C., without being able to visit the great restaurants that they are known for.

Independent restaurants draw millions of tourists from all around the world. In 2019, total spending by domestic and international travelers on food services in the United States was \$279 billion. That is more than double the amount spent on either recreation or retail.

Thank you again for the opportunity to be here and to share the story of independent restaurants with you. I sincerely hope that you will find a way to help independent restaurants with all the hard work you are doing on behalf of small businesses across the country.

Chairwoman VELÁZQUEZ. Thank you, Ms. Cohen.

Now I would like to recognize Dr. Cook for 5 minutes.

STATEMENT OF LISA D. COOK

Ms. COOK. Chairwoman Velázquez and Ranking Member Chabot, thank you for the opportunity to address the Committee on Small Business on the topic of “Long-Lasting Solutions for a Small Business Recovery.”

The coronavirus pandemic and the resulting human, economic, and financial crises are unfolding at breakneck speed, and, as a result, small firms are in crisis. The quick action of Congress has gone some way to lessen or postpone the pain associated with this pandemic-induced recession.

Specifically, assistance to small businesses to keep paying for employees through the \$670 billion Paycheck Protection Program, PPP, the largest ever investment in small businesses, was a critical lifeline for many small businesses.

Prior to the pandemic, most small firms reported being in good shape and 73 reported that their financial health was good or stable. Nonetheless, the financial health of small firms varied greatly, depending on the race or ethnicity of the owner. Compared to 27 percent of small White firms reporting that they were at risk or in distress, 49 percent of small Hispanic firms and 57 percent of small Black firms reported being at risk or distressed. Black and Hispanic firms were less prepared to weather an adverse shock like this pandemic.

According to the Federal Reserve, distressed firms are three times more likely to close relative to healthy firms due to a 2-month revenue shock. Further, the concentration of small minority-owned firms in certain sectors makes them more vulnerable in the wake of COVID-19. These sectors in which many small minority-owned firms are overrepresented are accommodation and food services, personal and laundry services, and retail.

By early May, it is estimated that 100,000 small businesses, or 2 percent of small businesses, had already closed. By mid-June, of the businesses that are listed on Yelp, 140,000 of those closing since March 1 were still closed by mid-June. Thirty-five percent of shopping and retail businesses listed have closed their doors tem-

porarily. Fifty-three of restaurants listed have closed their doors permanently.

The burden of small business closures is also unevenly distributed. Forty-one percent of African American businesses reported being closed compared to 35 percent overall.

In the only survey providing demographic data on PPP loan recipients, the Color of Change reports that 45 percent of Black and Latino businesses will close by the end of the year without more relief.

Minority-owned businesses also report not being able to access PPP loans due to the heavy reliance on large banks, with whom they have had historically poor relationships.

Over a third of small businesses reported paying reduced rent or deferred rent payments.

In FiveThirtyEight's most recent survey, the majority of macroeconomists believe that there will be a partial rebound in economic activity and a slow recovery, rather than a V-shaped sharp recovery.

With a slower-than-anticipated recovery and with the experience of PPP, I would urge this Committee to consider what it might do in the short and long run to address the small business crisis.

Now, I would support policy action that would modify PPP to work alongside the enhanced unemployment insurance benefits under the CARES Act. The Rebuilding Main Street Act, from Senators Van Hollen, Merkley, and Murphy, proposes such a modification. This would provide grants to especially hard-hit small firms to cover fixed costs and expenses if the employers use short-term compensation arrangements or a system such that the employers avoid layoffs and instead reduce hours worked by each employee at the firm. Employees would then continue to receive unemployment insurance on a prorated basis to compensate for reduced wages.

No matter what the modification, demographic data should be collected at the loan or grant application phase in any future modified PPP effort, not just on the back end of the program. These data were supposed to be tracked such that the most vulnerable firms would be prioritized. Not only should these data be collected, any current and additional relief should be targeted at these firms.

Policymakers should consider in the long run distribution channels for aid in the future that could provide aid to small firms directly rather than via banks or other lenders.

Most importantly, the human and technological capacity of the SBA to process and implement swiftly and efficiently such a program as the PPP should be increased significantly.

Given the longstanding importance of small businesses as an entry point to the middle class and their contribution to the economy overall, this capacity building should have happened long ago. And this won't be the last natural disaster or economic and financial crisis, and SBA will need to be better equipped to meet these challenges.

Thank you.

Chairwoman VELÁZQUEZ. Thank you, Dr. Cook.

Now let's recognize Mr. Blackshaw for 5 minutes.

Welcome. Thank you.

STATEMENT OF PETE BLACKSHAW

Mr. BLACKSHAW. Thank you, Chair Velázquez, Minority Ranking Member Chabot, members. Thanks for the opportunity.

I just have one core message, and that is that the best way to help small business owners thrive in this very uncertain world is to help them think and act like startups.

And When I say startups, I don't mean Silicon Valley or Ivy League entrepreneurs. I am referring to the next generation taking on big, unsolved challenges in every sector of our society and turning them on their head.

And many of the startup founders are women and minorities. A growing percentage, I say with pride, are coming from the Midwest. And we are living in an age of unending just disruption in which economic, social, health-related shocks are going to become more common.

Some call this VUCA—volatile, uncertain, complex, and ambiguous—and a VUCA world requires VUCA leadership, precisely what a startup mindset enables.

To be clear, there are urgent needs, as we have heard today. Small business owners need help right now, paycheck protection, access to capital, streamlined regulation and policies, all critical and necessary.

But we also need to look beyond the present to a future that is going to be even more demanding than the moment that we are living in today and to do so with urgency.

Now, many of us talk about reskilling or even upskilling. Neither in my view is enough. We need startup skilling.

A startup mindset prizes speed, rapid prototyping, constant iteration, failing fast to learn fast. It is obsessed with data, what to see in it, and how to exploit it. It is very, very digital.

I think startup skilling should be a national priority, led perhaps by the SBA and involving corporations, universities, and startup ecosystems.

Now, what does startup skilling look like? First, it is showing small business owners how they can apply startup thinking, technologies, and practices to their own ventures.

So, for example, at Cintrifuse we hosted a program called NITRO! in partnership with JPMorgan Chase. Over one weekend, we startup skilled several dozen minority-led businesses. We gave them access to mentors. We showed them how to leverage technologies. We brought in Google. We taught them the principles of startup leadership. And I think this is something that we should be doing constantly, every weekend, in fact.

We are also seeing a promising movement in what is known as micro-credentialing, aimed at urban and rural areas. Miami University of Ohio, for example, is one such school that is kind of taking their faculty outside of the ivory tower, bringing them into the community with different types of credentialing, focused on new business skills, basic skills in finance, marketing, and accounting. We need a lot more of this. We need to encourage the universities to do that.

Second, I think it is about learning from the digital natives, the kids who have grown up digital. As we speak, Cintrifuse is sponsoring a virtual summer entrepreneurial academy. It is way over-

subscribed. And these students, high schoolers and college, they are developing startup ideas to help address pressing challenges related to COVID, sustainability, social justice. And we are challenging them to explore ways in which radically more transparent supply chains might be part of a better future.

Thirdly, I want you to think about mobilizing and re-platforming small business services. Don't shoot the messenger, but I spent hours before this testimony reviewing government and SBA digital apps and websites—you name it. And I think the SBA in particular needs a digital startup infusion.

I would encourage you to consider: why can't government create an open innovation platform to crowdsource easier, less bureaucratic online solutions for small businesses. It is not just about money. It is about time and simplicity. So why not take greater advantage of audience-rich big tech, Google, Microsoft, Amazon?

Facebook, for example, has more than 3 billion users, including tens of millions of small business users. And I know they are taking lots of heat for issues I am not going to get into here. But why not invite them to codevelop the next generation hub for small business services and startup skilling, not a page or an ad campaign, but SBA on steroids? That would be a game changer overnight.

My final observation is that I think there is little distinction between a tech startup and a mom-and-pop small business. They are both based on an idea, a problem that needs to be solved, an entrepreneurial spirit, and the desire to take a shot and carve out your own path. And whether we are talking about scalable technology or small-town service, we are talking about the same things.

Business is built on the ingenuity, passion, and persistence of people who simply want to make the country better by finding a better way. That is American entrepreneurialism. And I would say the bumper skill is "Let's Startup Skill America."

Thank you.

Chairwoman VELÁZQUEZ. Thank you, Mr. Blackshaw.

Now I recognize myself for 5 minutes.

Dr. Cook, Congress responded to the Great Recession by making a couple of changes to SBA loan programs, including increasing the guarantee on 7(a) loans and reducing fees in both the 7(a) and 504.

As Congress weighs long-term recovery proposals for small businesses, would you recommend similar changes to SBA lending programs right now going forward?

Ms. COOK. I would, because this has to be encouraged. Take-up has to be encouraged.

But I would also echo what Mr. Blackshaw would say, that the digital transformation of SBA is something that I was promoting when I was at the White House in 2011/2012. I think this has absolutely, given the speed of this crisis, I think this has got to be matched with the speed of digital infrastructure and human capacity building at SBA, yes.

Chairwoman VELÁZQUEZ. This is one of the things that we need to keep in mind, especially the administration when they submit the budget, because it takes resources in order for them to implement those changes.

Ms. Cohen, as the virus continues to spread in our country, we have seen states who had once reopened restaurants and bars now shut them down again. How have the multiple closures impacted the hospitality industry?

Ms. COHEN. Madam Chairwoman, multiple closures are devastating for restaurants. We lose staff. We lose food. We lose our customers' good will. We lose our hope. A second round of full closures will finish off a number of independent restaurants permanently.

Chairwoman VELÁZQUEZ. Thank you.

There have been calls for proposals targeted to certain sectors that may face a long road to recovery or who may face reoccurring shutdowns like the hospitality industry. Why do SBA's current economic relief programs not address the hospitality industry needs? Why is targeted relief necessary?

Ms. COHEN. The hospitality industry has unique issues. We depend on gathering a lot of people in a small place to generate revenue.

So long as people are not in my restaurant, I will not be able to pay suppliers, continue to employ my staff, or generate revenue. I cannot take on any more debt with any of these other programs. I need something that specifically—or we need something that specifically works for the restaurant industry that allows us to get back up on our feet without any debt. Some of the programs have worked.

Chairwoman VELÁZQUEZ. Thank you. Thank you.

We have a short period of time to ask all the questions that we need to ask.

Mr. Palmer, the congressional efforts that we have seen so far to provide relief for small businesses have focused on bank financing, specifically the PPP program.

As our local economies begin to slowly reopen and recover, can you walk us through what some small businesses will need in terms of long-term capital and the role that the Small Business Administration, or SBIC, program can play for providing that capital?

Mr. PALMER. Thank you, Madam Chairwoman.

I think Amanda, the other witness, nailed it pretty well. A lot of businesses are up to their eyeballs in debt, and they are really going to be looking for patient capital. They are going to need something that isn't going to cause the banks, that are already in forbearance and calling on their loans, to provide capital. And they are going to need either equity or they are going to need equity-like capital.

And there is some tools that exist in the SBIC platform, particularly the LMI debenture, that are very patient, where you can draw a loan but there is no payments for 5 years and then you pay after that. And that operates at zero subsidy. That is a proven tool right now, but it is limited in geography. So a lot of places can't use it.

Opening up some tools like that, I think, would be very helpful in the recovery of businesses. As you add more SBICs, being able to offer those I think would be even more beneficial.

Chairwoman VELÁZQUEZ. Thank you.

My time has expired. Now I would recognize the Ranking Member, Mr. Chabot.

Mr. CHABOT. Thank you, Madam Chair.

And I will begin with Mr. Palmer.

Mr. Palmer, you have testified before our Committee many times. We appreciate you being here again today.

How important is it that we evaluate current government programs to reduce duplication in order to ensure that our programs are the most effective that they can be?

Mr. PALMER. I think it is critical, and I think right now Congress has the time to really focus. When the CARES Act was created the PPP was a lifesaver, and it is a brilliant program and thank you for doing it, but certainly there were some problems with it because it was written at the front end of an economic tornado hitting.

Now you have the time to really look at it and make sure things are effective, not duplicative, and that they are really adjusting to the different industry sectors and geographies that need different types of capital. So I think it is necessary.

Mr. CHABOT. Thank you.

I think I will go to Mr. Blackshaw next.

How can the NITRO! program that you mentioned serve as an example for future efforts? And was there anything that you felt could have been improved or any recommendations that you would make to us?

Mr. BLACKSHAW. Thank you for the question.

My first regret is that we treated it episodically, in just one weekend. But looking back, I mean, we can do that nonstop.

And I want everyone here to think about, just think about this hearing right now. Our ability to kind of scale services and scale intimacy in the form of any type of training has gone up exponentially.

So it is really easy to parachute in an expert who can help a small business owner to pick up a critical skill. And there are very critical, foundational types of entry, digital capabilities that even the ice cream shop needs to understand to be competitive in the marketplace today.

So I think the big opportunity revolves around scaling. I think there is a big opportunity to get more companies to subsidize the effort. This isn't just about getting the government to kind of pay for it. I think there is a win-win for everyone.

But we have to bring that startup mindset, more for less, digital kind of agility. And then definitely leverage this power of virtual. Not to take away from the offline, there is still some power there, but we can serve a lot of critical needs really, really fast.

Mr. CHABOT. Thank you very much.

And I think I will go to Ms. Cohen next.

Ms. Cohen, in your testimony you discussed how people still feel unsafe going to restaurants. The same can be said for the tourism industry as well.

What can we do to help people to feel a sense of safety and security again so that your restaurant and others will be moving in the right direction?

Ms. COHEN. Unfortunately, I am not sure we can get anybody to feel safe until we have a vaccine. I mean, that is the reality.

In the meantime, not forcing restaurants to have to open up more tables than they feel comfortable with, or hotels or anybody. We cannot congregate too many people in one place. We have to make people feel safe.

It is my job as a restaurateur to make my customers feel safe and to know that I have made my employees feel safe so everybody can come and dine and feel relaxed, which is what they should do in a restaurant. But I can't do that if I am looking at my bottom line instead of my payroll.

Mr. CHABOT. Thank you.

Dr. Cook, you had said that you felt that we were likely to experience a slow recovery. If you had to pick just one thing to change that, what would it be?

Ms. COOK. I would echo the sentiments of Amanda Cohen, that there has to be attention paid to COVID-19 first. That is absolutely it. There is, like, there is nothing else. If I had to choose one thing, it would be that we would provide, say, relief to businesses, to the American people that had to do with addressing the healthcare crisis.

Mr. CHABOT. Thank you.

And I think I have got time to squeeze one more question in.

So, Mr. Blackshaw, I will go back to you again. We are obviously both in the Midwest here, and you mentioned the Midwest. What specifically is encouraging startups in our part of the country in the Midwest, at least prior to the COVID crisis, and how can we continue to fuel that startup culture that we have been seeing?

Mr. BLACKSHAW. I think it is critical to lower barriers of entry for entrepreneurs. Cost structure contributes to that. I am a native Californian, so I don't want to disparage my former State. But there is a cost structure that can get in the way of being able to kind of jump in early, test, and learn.

I located my first startup in Cincinnati. The burn rate extended much longer. I think there is a quality of life that typically gets overlooked. And there is a wonderful synergy, especially in greater Cincinnati but also northern Kentucky with the large companies that are very, very open in a very humble way, if I may.

Let's work with startups because they can solve big challenges that we can't figure out. Maybe we are too bureaucratic and we need an external focus that I am seeing more in the Midwest than I have seen in other locations.

I think those are just a few of the factors that really play out. I think wherever you are, building a supportive ecosystem is critical, and that is public, that is private universities. Those formulas can work.

Mr. CHABOT. Thank you.

Chairwoman VELAZQUEZ. Thank you. The gentleman's time has expired.

Now we recognize the gentleman from Maryland, Mr. Mfume, for 5 minutes.

Mr. MFUME. Thank you very much. Madam Chair, I want to thank you, I want to thank the Ranking Member, obviously, for convening this particular hearing. I think it is an extremely forward-looking topic that has to be dealt with after, I agree, we have been able to deal with the major topic, which is this pandemic.

Madam Chair, I apologize for just getting on. Recently, as you know, the Democratic Caucus is underway. And I am on the hearing of the Oversight Committee. So I jumped on be on. It has been an interesting discussion. I would reserve any time or the right to ask questions at this moment so that I am not deliberately or undeliberately redundant in what I would like to talk about.

And I will yield back and welcome the discussion that continues.

Chairwoman VELAZQUEZ. The gentleman yields back.

I now recognize the gentleman from Oklahoma, Mr. Hern, for 5 minutes.

Is Mr. Hern on? Okay.

Mr. Stauber, the gentleman from Minnesota, is recognized for 5 minutes.

You need to unmute.

I think that he is having technical difficulties.

Mr. STAUBER. Again, Madam Chair, can I get back in, in a minute?

Chairwoman VELÁZQUEZ. Sure.

Mr. Burchett is recognized for 5 minutes.

Mr. BURCHETT. Can you all hear me?

Chairwoman VELAZQUEZ. Yes.

Mr. BURCHETT. Thank you. I appreciate the testimony, and appreciate the Chairlady and Ranking Member.

Dr. Cook answered this question for me, but I would like to know from Mr. Palmer, in your testimony you mentioned that up to 22 percent of the small businesses will fail due to the COVID-19, but that number rises to an estimated 41 percent of Black-owned small businesses.

That is a huge disparity and that troubles me greatly. My whole life I have worked in and around our community and business community and lots of Black folks and I am concerned about that. How do you think we could address or rectify the problem?

Mr. PALMER. It is a real problem. And once we sort of get the economy stabilized with health, which is sort of the foundational issue—and I will just set that aside—I think we really need to look at really equity capital.

There was an excellent article by Eddie Brown in The Washington Post this last week, the founder of Brown Capital, and he called equity capital the rocket fuel for job creation and he highlighted how little of it is in the hands of Black entrepreneurs.

I think we need to form more SBIC funds that have more Black fund managers and more women fund managers. And that is part of that SBIC, the MicroSBIC model, where we can form funds by broadening out the funnel of who can come in, and then we can harness the private investment that comes in and amplify it in a way that really creates jobs and ownership of businesses.

But we have to be deliberate about the real barriers, because most Black entrepreneurs just have less capital. The amount of startup capital that a Black entrepreneur has versus a White entrepreneur is about 1/36th, and that is a barrier. And so they need external capital.

We need more small private venture funds and more small private capital funds around the country and not just concentrated in the three areas where they spend most of it now.

So I think getting more of those that are regional or local will be of very beneficial help.

Mr. BURCHETT. What I have found a lot of the time here is that in Tennessee is that funds are available but, dadgummit, nobody knows how to get to them. And I guess you have got the good old boy network, but also it is just a method of educating folks, and we do that through the Urban League or chambers of commerce or what have you.

I just see a huge duplication, and I don't see anything getting done. I just see the people in these organizations driving nice cars and having nice offices, and I am not seeing anything done.

Mr. PALMER. I think that there have been some studies done that a lot of Black entrepreneurs don't get loans and part of it is because they don't ask for them because they think they are going to be turned down. They don't have that connection in the community or in that region.

And I think that the financial providers, both SBIC funds and banks and others, need to do a far better job of doing outreach and letting folks know how to access the capital, because it is there in many cases.

Mr. BURCHETT. What do you think nonprofits in the private sector can do to increase access to capital and promote recovery?

Mr. PALMER. I think the private sector is the driver for it. Nonprofits, there are lots of different nonprofits that can be facilitators and educators and provide roles. And Mr. Blackshaw, as a witness, is an example of that as far as training those entrepreneurs about how to access that capital, how to ask for the right kinds of capital, the right amounts, how to be prepared for it to increase your likelihood of success.

But ultimately we need tax policy and regulatory policy that really encourages and augments and doesn't create barriers to accessing that capital.

So we need both working together in a deliberate fashion.

Mr. BURCHETT. Okay. Thank you.

Ms. Cohen, I dig your enthusiasm. I have never been to New York before, as you can probably tell from my accent. I am not even from the north part of Tennessee.

But I was wondering about the ripple effect that will occur in our communities with the restaurant industry operating below full employment. What can we do to limit these effects and make our economy recover faster, ma'am?

Ms. COHEN. Well, first off, you are invited to my restaurant anytime that you are in New York.

Mr. BURCHETT. Did you say is it a vegetarian restaurant?

Ms. COHEN. It is a vegetarian restaurant. It is a vegetable restaurant. But it is delicious.

Mr. BURCHETT. Okay. If you say so.

Ms. COHEN. So the best thing you can do is actually support our RESTAURANTS Act. That will put more money back into my restaurant and then I can put it back out into the economy and I can start supporting my suppliers again. That is what I really need to do, I need to help get them back up on their feet, and the only way I can do that is if I have some money to spend on them.

Mr. BURCHETT. How much time do I have left, Chairlady? Have I run over?

Chairwoman VELÁZQUEZ. Almost. Two seconds.

Mr. BURCHETT. Do what?

Chairwoman VELÁZQUEZ. Two seconds.

Mr. BURCHETT. Okay. Well, I will yield back the remainder of my time. And thank you so much. And, once again, I am glad that my wife is not here to see you because if she saw that wonderful outfit you are wearing, I knew on the way home I would have to be looking for that.

Chairwoman VELÁZQUEZ. Thank you.

Mr. BURCHETT. Thank you so much, ma'am. And you are always so hospitable to me. Thank you, ma'am.

Chairwoman VELÁZQUEZ. The gentleman's time has expired.

Now the gentlelady from California, Ms. Chu, is recognized.

Ms. CHU. Yes. Mr. Palmer, I am so glad that you are here to express how important SBIC is and how much more potential it has to address our COVID-19 economic crisis.

Since its inception, SBICs have created or sustained nearly 10 million jobs, and yet this program operates at extremely low risk to the taxpayer. Even though there is an SBA guarantee the private investors' capital has to be completely exhausted before that guarantee is even impacted and, as a result, this program operates at zero subsidy.

So because of this success, I introduced H.R. 116, the Investing in Main Street Act, to allow banks to invest more of their capital in SBICs, and the legislation passed the House in this Congress but it still awaits further action in the Senate.

Can you explain what made the SBIC program so successful during the last economic recovery and how the investing community made SBICs more effective as our economy recovers from the COVID pandemic?

Mr. PALMER. Well, thank you very much for that question and for your support of SBICs and making that correction that would allow more banks to put capital into SBICs.

And I will mention that there are a couple of reasons why the program works. First, it works because it passes all the private sector requirements. And second, it works because it fills a public policy purpose.

The program really puts the taxpayer in second loss position and the private capital in first loss position as it always should be, and I think that makes it work.

I really think right now one of the things that is coming out, we have the pandemic, but we also have massive social unrest and an awakening to some problems that existed before. We need more smaller SBIC funds and I think we need more smaller funds serving minority communities. And you have the banks that are very interested in doing that now. And so we want to take away any barriers that would be in place that might limit the ability for capital providers to get capital where it is clearly needed and recreate those jobs that have been lost and restart up those businesses that may be mothballed at the moment and re-empower those entrepreneurs.

So that is what we do. We would like to do more of it. And your legislation is a critical part of it. So thank you very much for your support of it.

Ms. CHU. Thank you so much.

Dr. Cook, people of color have suffered disproportionate health and economic impacts during the COVID-19 pandemic. As you mentioned, business owners of color are at higher risk of permanent closure, which makes SBA's failure to collect adequate demographic data on participants in recovery programs like the Paycheck Protection Program especially harmful.

For example, SBA failed to collect any racial demographic data for 94 percent of the nearly 500,000 PPP loans under \$150,000 that were made in California. That means they only collected on 6 percent of the businesses that actually got those loans, while given California's diverse population. That is unacceptable.

One thing I know, these businesses need help. So I plan to introduce legislation to authorize SBA's Community Advantage Loan Program, which provides access to affordable government-backed capital to underserved markets, and under this legislation businesses owned by minorities, women, and veterans, and also provide some technical assistance.

Can you talk about the role of the programs that programs designed to reach underserved small businesses should play in our long-term recovery?

Ms. COOK. Well, one of the key features of entrepreneurship in America is that it has been a path to the middle class, and it has been a path to wealth. And certainly for minority businesses, given the losses they suffered—minority suffered—especially blacks and Hispanics suffered—during the Great Recession, this would go some way to close the racial wealth gap.

So I think entrepreneurship is just so critical to the American experience to both income and wealth. The kind of attention that would be given to it, I think, would be well worth it.

Ms. CHU. And why is the demographic information so important?

Ms. COOK. I am sorry. I didn't hear the last part, why is the demographic—

Ms. CHU. Information so important to have.

Ms. COOK. Oh, it is because, as I mentioned in my delivered remarks, the Black and Hispanic businesses especially were already vulnerable. So if you want to really make sure that you are making sure that the recovery is even, they should be targeted. And this was—I mean, you all articulated that they should be prioritized and for good reason. So I think any extension, any additional relief going to small businesses, make sure to target these businesses and collect the data, the demographic data.

Ms. CHU. Thank you.

Chairwoman VELAZQUEZ. The gentle lady's time has expired, and now we recognize the gentlemen from Minnesota, Mr. Stauber.

Mr. STAUBER. Thank you, Madam Chairwoman Velázquez, and Ranking Member Chabot.

Mr. Blackshaw, how do you think we most effectively bring the, quote, "STARTUP-SKILL" you mentioned in your testimony to rural America?

Mr. BLACKSHAW. Thank you for the question. The first thing we need to continue to take a close look at, internet, broadband access in rural districts, and I think anything we can do to kind of equalize access, I think, is really important.

I think in the State of Ohio, there is a big concerted effort on that, and I think that is good for any type of kind of startup layer. There is no question that digitalization pervades everything, and so I think getting that piece work is absolutely critical.

I think one of the great things about what we are all experimenting with right now is if the digital infrastructure is in place, there is infinite access to training, experts parachuted in, virtual mentoring, you name it. And I just challenge us to think about how we can move that new environment what we are doing right now, on steroids, into a completely different model of access even in rural communities where I think the one opportunity in certain rural districts is, you are going to get to invent everything from scratch. You are not burdened by a lot of legacy practices in terms of how technology is used.

You basically put in a whole new broadband pipe and you are kind of inventing, almost as a startup would, with a clean sheet of paper, so.

I am very bullish about the opportunity there, but there is clearly some investment on technology required and obviously probably some funding as well.

Mr. STAUBER. Yeah. You know, one of the biggest issues that has been exposed during this pandemic is limited access to broadband in rural America. It has been talked about for many years, but many are seeing just how bad it is for the very first time.

So when we come to these hearings and hear the many wonderful ideas of how we can help businesses pivot their models and help them mobilize and re-platform, it feels that the businesses in rural America are not considered. And I think it is high time that we actually take that step forward and start investing. We need to take steps to bring parity to these rural businesses so they can be more resilient in, and as you mentioned, Mr. Blackshaw, a volatile, uncertain, complex, and ambiguous world. It is critically important.

And I would just say from your words, Mr. Blackshaw, let's definitely work together to bring that start, quote, "STARTUP-SKILL," to rural America.

We are seeing the digital divide, the negative effects of the digital divide. We have schoolchildren in rural America that have to—their parents have to drive them to a bus that is a hotspot, so they can download their homework and get their homework. That is unacceptable.

Mr. BLACKSHAW. I agree.

Mr. STAUBER. And we also know that rural America, this broadband is going to help keep our rural schoolchildren competitive, our rural hospitals open, and it is going to bring the rural economy. People are going to move to rural America for our quality of life, and I think we have to—it is time now to invest in rural America and the broadband to bring those STARTUP-SKILLS to everyone, including, and not only rural Minnesota, but rural America, and would you agree with that?

Mr. BLACKSHAW. Not only that, I am signed up to help in any way. I think it is critically important, it is overdue, and the opportunity and the upside, the pay-out, will be massive if we make that effort.

Mr. STAUBER. Yep. That is an investment that needs to happen.

And Madam Chair, I yield back. Thank you.

Chairwoman VELAZQUEZ. The gentleman yields back. I now would recognize the gentleman from Pennsylvania, Mr. Evans.

You need to unmute, Mr. Evans.

Mr. EVANS. Thank you, Madam Chair.

Ms. Cohen, many of my constituents in Philadelphia are restaurant owners like yourself and are barely surviving. Coming from a city where nearly half of the population are minorities, I am interested in solutions that can help as many groups as possible. That is why I support the Restaurant Act.

Minorities make up over 40 percent of the overall restaurant workers. Restaurants employ more minority managers than any other industry. One in three restaurant owners come from a minority background.

Ms. Cohen, can you tell me why do you think the Restaurant Act would be more beneficial to restaurants than the EIDL or the PPP program?

Ms. COHEN. I think that it is more beneficial to us—and thank you for the question—because both those programs put us into debt. And restaurants operate willingly on a very slim margin. We put a ton of money back into the economy. And I think it is unfair, at this moment, to ask us to take on more debt.

So the Restaurant Act allows us to receive money without debt, and put it back into the economy, and that is why it is the best program for restaurants at this moment.

Mr. EVANS. Okay. Mr. Palmer and Dr. Cook, the Benjamin Franklin Technology Partners, which is an initiative of the Pennsylvania Department of Commerce and Economic Development, suggested an idea to my office on how to increase SBIC investment. The SBIC investments have a low, fixed interest rate while private investors often negotiate a much higher interest rate for its portion of the investment.

However, private investors must wait until the SBA has been fully repaid on this portion of the investment before they can start to receive investment. This means that private investors often wait years before seeing any return. Can you give me your reaction to that idea?

Mr. Palmer or Dr. Cook.

Mr. PALMER. Sure. I don't know the full details, but I think that—I am actually working with Benjamin Franklin partners to use the SBIC program more broadly and make it more accessible to small venture funds like theirs across the country.

The private investors that drive these things, who do demand a certain rate of return, and we need to make sure that whatever products we are offering actually passes the market filter there to drive that private capital to them, to make sure that the capital is there. Because if it is not, they just won't do it.

But I don't know the specific structure, but I would be happy to work with you and your staff on it, because I think Benjamin Franklin Funds serve Pennsylvania well. I think they are a model for lots of other States, and we would love to make the SBIC program more flexible to serve more funds like that in more places in Pennsylvania.

Mr. EVANS. Dr. Cook, any reaction?

Ms. COOK. I would say that anything that pushes private investors to invest in African American entrepreneurs, in particular, is well worth it.

Only 1 percent of African American founders receive venture capital funding. So anything that will increase that, that kind of private capital, I think, would be well worth it.

Mr. EVANS. Okay. Mr. Palmer and Dr. Cook, real quick, three States—California, Massachusetts, and New York—saw over 70 percent of all venture capital investment from 2014 to 2018. In that same period, my home State of Pennsylvania received less than 5 percent of the total venture capital. What suggestions would you have that we could do in Pennsylvania to make it more appealing?

Mr. PALMER. I would suggest, and not just for Pennsylvania but to the diversification and democratization of venture capital is, re-imagine an equity platform for the SBICs. When the SBICs were able to do more early stage plat—investing, they were all over the country, in much smaller cities, and outside those three concentrated areas.

We can do that in a way that is protective of the taxpayer and that would fix a lot of that problem. I think that is one of the things that the SBA can do and that you have authority on this Committee over.

Mr. EVANS. Dr. Cook, real quick, do you have any thoughts on that?

Ms. COOK. I would say that one of the things that would attract capital to areas like yours, like mine in Michigan, like Blackshaw's in Ohio, would be to invest in digital infrastructure. I hate to keep going back to this.

I work on the economics of innovation, but the digital divide between rural and urban, for example, or from the coast and other places in the country, it is critical that this be built out. We are not going to be competitive—any kind of a competitive economy if we don't do this. So I think this is a deep investment that has to be made and be made quickly.

Mr. EVANS. Thank you, Madam Chair. I yield back.

Chairwoman VELAZQUEZ. The gentleman's time has expired.

Now we recognize the gentleman from North Carolina, Mr. Bishop, for 5 minutes.

Mr. BISHOP. Thank you, Chairwoman Velázquez and Ranking Member Chabot. Thank you for the hearing. Thank you to the witnesses for lending their expertise. I appreciate the interesting discussion about some new and long-term solutions, some of them potentially expensive, but I hope to address briefly one beneficial policy change we can make right away to an existing program so more small businesses remain standing once this crisis is over.

Two weeks ago our Committee heard from SBA Associate Administrator James Rivera on the implementation of the Economic In-

jury Disaster Loan Program in the course of the pandemic. To be frank, I believe SBA's rationale for limiting the size of EIDL loans to \$150,000, to have left a great deal to be desired.

This decision not only sorely disappointed the expectations of businesses hoping to receive relief, it was an incomprehensibly bad credit decision. After all, if a business' intrinsic financial circumstances warrant the \$2 million loan, to extend it a \$150,000 loan is a futile act, which guarantees not only failure of the business but, of course, a default on the inadequate loan as well. And that, in turn, negatively impacts U.S. taxpayers.

Unfortunately, it is up to Congress to fix SBA's error. When reflecting upon our hearing and talking to constituents, one idea suggested was to allow EIDL borrowers to go back for a second EIDL, or modify the EIDL loan balance to receive a higher amount. The idea would be, if the business received an EIDL for less than the appropriate amount, it could receive a supplemental loan for the difference between the appropriate amount, according to SBA underwriting standards, and the amount previously loaned under SBA's misguided \$150,000 limitation.

For example, if company X would have qualified for an EIDL for a million dollars to help it weather this crisis but only received \$150,000, Congress would allow that business to reply for a second EIDL worth up to \$850,000.

To restore constituents' faith in our relief efforts and those of SBA, it is important, I submit, that we provide them the relief that was promised to them on the front end.

To the panel, Mr. Palmer, we have had good conversations. You have always supported and been open about commonsense solutions. Do you think this idea of allowing businesses effectively to double-dip on EIDL would help more businesses to weather the short-term storm?

Mr. PALMER. I am not sure I would call it double-dipping because the statutory language, I think, was a \$2 million cap. I mean, I think there is an obligation for agencies to follow the explicit language of the law written by the legislative branch.

Chairwoman VELAZQUEZ. That is correct.

Mr. PALMER. One thing, I think it is just the right thing to do legally, we are a Nation of laws, but two, there is clear expectations from small businesses. If small businesses were dedicating their limited time and resources to accessing amount that the law specifically allowed and didn't know they could—but they really couldn't access it, that is not really fair to them.

And this disaster has gone on longer than expected. So I think allowing people to go back to get the caps that they need, knowing the damages that they have, seems perfectly reasonable to me.

Mr. BISHOP. Thank you, Mr. Palmer.

And I agree. I think my choice of term is probably a poor one. It really is a simply going back and allowing them to have what was intended in the first instance.

Dr. Cook, would you agree with Mr. Palmer's assessment of that idea?

Ms. COOK. Yes. Yes, I would.

Mr. BISHOP. Ms. Cohen, I heard what you said about the restaurant legislation that would provide grants, and I am sure that

would be your preference, but do you know of any additional restaurants that could take advantage of the ability to go back and get the full EIDL amount, or something closer to it, depending on its own circumstances, that that would be a welcome opportunity for some?

Ms. COHEN. I can't speak for all restaurants, but I certainly know that no restaurant I know at the moment could possibly sort of fathom the idea of taking on more debt while we are still trying to climb out of the situation that we are in, unfortunately.

Mr. BISHOP. Do you think if they had a choice between additional indebtedness that would allow them to operate and capital to continue, or not receiving any benefit, they would prefer they would like to have that opportunity?

Ms. COHEN. That is a tough choice.

Mr. BISHOP. Yeah, okay.

Ms. COHEN. Little bit of a Sophie's Choice there. I am not sure. I mean, yes, I think most restaurateurs would like to stay open, but I also know that it seems impossible to work with this unbelievable debt hanging over your head—

Mr. BISHOP. Right.

Ms. COHEN.—at a time it seems like we might never be able to actually open at full capacity again.

Mr. BISHOP. Yeah. Thank you, Ms. Cohen.

I think ultimately that choice is—that debt is going to be hanging over somebody's head, over the taxpayers or over the business owners.

Thank you, Madam Chairwoman. My time is expired, I think or just about.

Chairwoman VELÁZQUEZ. The gentleman's time has expired, and now we recognize Mr. Schneider from Illinois.

Mr. SCHNEIDER. Thank you, Madam Chairwoman, and I want to thank you and the Ranking Member for having this hearing and obviously the witnesses for sharing your perspectives today. I know this is a difficult situation for everybody. For anyone who is going through the health crisis and has lost somebody, it is unfathomable.

But it is also an economic crisis, and the impact it is having on our businesses, but in particular, our small businesses, as was noted earlier, I think it is somewhere upwards of 75 percent of all businesses have had a negative impact on their revenues, on their business.

None more so, Ms. Cohen, than what you talked about in the restaurant industry, especially our local restaurants, that are so much a part of the neighborhoods, the communities that we all live in, and they are struggling. And I am happy to be a cosponsor of the Restaurant Act because I understand how important that is.

But I also will say share the thought with Mr. Bishop. And, Mr. Palmer, thank you for saying it is not double-dipping, that the law said that these businesses had an opportunity to get loans up to \$2 million. The \$150,000 decision was an arbitrary decision. I often use the analogy is, if you build a bridge halfway across the river, you may feel good for a while, you are still going to get wet, and not make it to the other side.

We have got to provide a bridge for our economy. Our economy is made up of the businesses and the workers in those businesses. We have got to be doing everything we can to help them.

And Ms. Cohen, what you were saying, I can't think of any small restaurant that is in a position to take on more debt. They are just trying to barely hang on, whether it is takeout service, delivery service, a few are able to open. But it is going to be fits and starts.

Mr. Blackshaw, I loved your acronym, VUCA, volatility, uncertainty, complexity—you might add "chaos" into it right now—and ambiguity. It is a tough time, and having been in business, I understand that, and we are looking forward.

And I forget who said it, but the idea of an 8-month solution for—or 8-week solution for an 18-month problem is one of our challenges. So maybe I will turn to the two business owners, Ms. Cohen and Mr. Blackshaw.

Looking forward with this uncertainty, what can Congress do to help give some stability, some confidence to help you make the hard choices to risk capital, to risk your and your employees' future to try to make it to the other side?

Ms. COHEN. Well, first of all, thank you so much for supporting the Restaurant Act. I am deeply grateful for that. And not to sound like a broken record, but the best thing that Congress can do is support the Restaurant Act. Let's get more members to support the Restaurant Act. That is the only way that I know and other restaurants know that we can open up safely. We don't have to put too many people in our dining room at once. We can keep our employees safe, and we can keep our customers safe.

Mr. SCHNEIDER. Mr. Blackshaw, you are in a different type of business. What would you suggest?

Mr. BLACKSHAW. Listen, I think anything Congress can do to reward, recognize, credential—you know, innovation in this environment is critically important, and some of that is just really eyes wide open to what is already happening. I think a lot of the answers are out there. We just need to really smartly graft the ideas that are taking place maybe in a lesser known region and turn it into a big national idea.

That is what I love about the digital Natives. You know, whether we like TikTok or Instagram or not, they are brilliant at finding sources of inspiration across the world and scaling it. And I think we have this golden opportunity to find those programs, those initiatives, those more-for-less ways of delivering services and turn them into big opportunities.

Congress can play a very, very key role, shining a light on that. I think that the whole issue of reinventing your platforms is so important. It is not enough to say that the SBA site is improving 20 percent per year, because we have all, in this VUCA world we have gone from, like, a hockey stick on how we use Zoom. The expectations are so much higher, and how do we bring out a clean sheet of paper on how services are delivered, how you apply for loans online.

And it is all doable. We can learn, and I think a lot of these big tech players will probably gladly co-invest. I think they are looking for opportunities to show goodwill and—but I think they are also

genuinely concerned on the issue and they bring know-how, and I think Congress can really make a lot of those outcomes real.

Mr. SCHNEIDER. Thank you. And just with my last few seconds—thanks for that—I like the idea of the STARTUP mentality. We need to create that STARTUP. The challenges we face I would describe it not just a hockey stick. It is a hockey stick on a spring, bouncing on a trampoline.

The rate of change is so dynamic and so fast, government has to keep up. In fact, we need to make sure the SBA isn't just keeping up but leading the way, and I look forward to working with my colleagues on this Committee to try to do that.

Once again, I thank everyone. I know how hard it is, try and get there, keep working, together we are going to get through this crisis.

Thanks so much. My time is expired. I yield back.

Chairwoman VELAZQUEZ. The gentleman's time has expired.

I now recognize the gentle lady from Pennsylvania, Ms. Houlahan.

Ms. HOULAHAN. Hi. I hope that you can hear me.

Chairwoman VELAZQUEZ. Yes, we can.

Ms. HOULAHAN. And I would also like to echo my appreciation to the panelists and to the Committee. And I know, as an entrepreneur myself, how very, very difficult it is in the best of times to be an entrepreneur, and particularly I can't even imagine how hard it is now.

And so please take my questions just as questions because I am trying to be as thoughtful and probative as I can be on behalf of the people that I represent.

And so my first question is regarding the restaurant bill. You know, shortly after this call, I will be going back and sitting with my team, with a legislative lens on, trying to figure out what bills to get behind and what bills to not get behind. And let me just posit this to you, to Ms. Cohen possibly, would probably be the most likely person to answer my question.

Many, many, many businesses have a situation that you have right now, where you have taken the PPP loan. You may or may not be able to use it or open on time. You may or may not have to go in and out of operating your business over this period of time.

I am just west of Philadelphia, and my community just barely opened and may be closing back again in the foreseeable future. Our businesses like live venue, live theater, are just a few of those thanks that I could name that need just as much help as the restaurant industry does but may not have quite as much of a lobbying power as the restaurant industry does.

Why does this restaurant industry need the help different than any other company? And why wouldn't it be more appropriate, perhaps, if the PPP program has been effective, to be able to have trigger mechanisms maybe for certain industries, maybe for certain regions or zip codes, as we come in and out of this problem? Why wouldn't we better be served by taking something that is working and tweaking it for everyone, rather than one industry?

Ms. COHEN. Thank you so much for the question, Congresswoman.

For one, the PPP, even if it were to be extended, is still just a bridge. It is not a long-term solution for us. And the restaurant industry is uniquely and completely reliant on social gatherings to generate revenue, which is why the pandemic and public health shutdowns affected us more than any other business.

Unlike airlines or big retailers, independent restaurants do not have access to debt or capital markets. And as a result, independent restaurants face the perfect storm that will force more than 85 percent of them to close without intervention. That would be disastrous for our Nation's roughly 500,000—500,000 independent restaurants and the over 11 million employees that they employ.

Ms. HOULAHAN. But wouldn't you agree that something like live music or live theater or really almost anything live is in just as dire straits as your industry is?

Ms. COHEN. I am not advocating against any other industry receiving money. But I do think that we have less access to capital. In particular, independent restaurants.

Ms. HOULAHAN. And in the situation where you would be able to evolve the PPP loan to be able to be, as it is currently, if you use it a certain way, it is not a loan, it is a grant, and there is forgiveness, why wouldn't we do the same and have tranches have multiple times, multiple dips as Representative, I believe it was Bishop was talking about with EIDL, but actually genuinely in this case, PPP, multiple opportunities to access this bucket of capital, would that not in the case were it to be converted to a grant, would that not satisfy the restaurant industry and other industries similarly?

Ms. COHEN. I cannot speak on behalf of other industries unfortunately.

Ms. HOULAHAN. Sure.

Ms. COHEN. But I think for restaurants, part of the PPP is about getting employees back on the payroll, and it is predicated on that. And that is very hard for what I am looking at, for an 18-month problem, where we are going to have employees come on and off. And I don't want to—on and off our payroll. And I don't want to put employees back on my payroll and then have to take them off again. I would rather slowly build up to a time where we can actually get fully up and running.

Ms. HOULAHAN. And I appreciate that. I really don't mean to put you on the spot. I am just trying to noodle over kind of what our opportunities are.

Do any of the other panelists, with the 39 seconds that I have left, have anything to add or offer to that question?

Mr. PALMER. I would add something, is that, you are right, it is not,—I mean, restaurants are taking it on the chin. They are a massive employer. They are a significant local economic jobs multiplier. But there are other businesses that—in particular, staging or lighting—they really have taken it on the chin. So your proposal on having tailored PPP now that we have time to be thoughtful and deliberative about how we are going to structure these things, makes some sense.

And this isn't based on the Restaurant Act, I know nothing about the Restaurant Act. But if we can be deliberate about how we de-

fine injury, what they can use it for, what their needs are, what they—make it a deductible expense—a permitted expense under PPE for forgiveness, for example, to make your business safe, if you are getting one of these loans.

There is lots of things we can do, or we could even for some of these other grant programs, have it where there is no payments for the first 2 years. It is still a loan, but there is no payments for the first 2 years because the 10-year Treasury right now is running at what, 20 basis points?

You can do a significant amount for a very small amount of time, and then you pay the regular payments after the first 2 years to give businesses a chance to recover that are currently totally shut down. There are lots of creative ways we can look at these things, but we do have the time but not a ton of time.

Ms. HOULAHAN. Thank you. I yield back. I appreciate it.

Chairwoman VELAZQUEZ. Sure. The gentle lady from Minnesota, Ms. Craig, is recognized.

Ms. CRAIG. Thank you so much, Madam Chairwoman.

Dr. Cook, I just want to maybe just make a quick comment on your point related to the healthcare crisis, the public health crisis, that we are in here today.

My point from day one has been that if we handle the public health crisis side of this well, that the economic crisis will take care of itself.

So I just wanted to say, I heard you in your testimony and in your Q&A about how critical it is that even though we are on the House Committee on Small Business that the Congress continues to focus on coming up with a more robust strategy as it relates to how we handle the healthcare crisis of COVID-19.

Ms. Cohen, I also wanted to say to you that I am a strong supporter of the Restaurants Act. I am on Representative Blumenauer's bill. My only regret is that I didn't author the bill first, so thank you for your advocacy of that bill.

I did, however, introduce a bill that the Chairwoman was kind enough to also become an original on, that would allow folks who have seen a 50 percent reduction in revenue, as a result of COVID-19, as well as have 100 or fewer employees to come back and get a second forgivable loan.

Can you tell me how you think about a bill like that, which obviously is less industry-specific, versus the Restaurants Act, and sort of compare and contrast the value of those two actions from the part of the Congress?

Ms. COHEN. Thank you so much for sponsoring the bill, our bill, and I think that is actually a terrific bill. I think that the Restaurant Act takes care of more of our needs and that it allows us to pay back our suppliers, actually, get us back up on our feet and not just put our money—I mean, putting our money into payroll is incredibly important, and I want to get all my 35 employees back on my payroll.

But I would also really, really like to be able to open my business and put money back into the economy through my suppliers.

Ms. CRAIG. Thank you so much for that. And I will just, a quick follow-up for you is, I know, as we have reopened here in Minnesota, many of my restaurant owners, independent owners, have

been asked to undertake safety measures, obviously to keep customers more safe and limit the spread of COVID-19.

I am hearing from them, even though they serve far fewer customers, that they are required to put in place higher staffing levels to open those doors. What can Congress and the SBA do to help lower those burdens, at the same time, ensuring that your employees and your customers remain safe?

Ms. COHEN. I am not sure what more that can be done. We do have to—we have more people employed. For me, personally, I have somebody who monitors the bathroom. We don't even have dine-in service, but I have guests who come in, and I want to make sure that the bathroom is as clean as possible. That is not normal. I don't usually have a bathroom attendant in my 40-seat restaurant.

So I am not sure what more actually can be done, unless we get money that we can specifically use for things like the PPP—the PPE or for hiring those extra people, and extra cleaning, all those extra stuff.

Ms. CRAIG. Thank you so much. And I just really appreciate your advocacy on the part of independent restaurants.

And then finally, Mr. Palmer, very quickly, do you think certain industries, moving forward, will face unique challenges post-COVID-19, into this recovery phase, and you know, any thoughts that you have on specifically what Congress can do to continue to help business recover?

Mr. PALMER. Absolutely. There is going to be definitive variations, hospitality and events industries. Anyone who has to do long-term planning, because right now, we just don't have any idea what 2 months are going to look like—things are going to look like 2 months from now, much less a year from now.

I think we need to be providing patient capital as much as we can. I think Congress really needs to revisit our policies as it relates to manufacturing and domestic production.

One of things that became clear out of this is that our inability to create PPP and other critical infrastructure, the fact that we still can't get Lysol disinfectant wipes in a supermarket 5 months later because we don't have the chemicals, or whatever is causing those type of shortages is kind of crazy.

So I think we need to revisit our access to equity capital, the patient capital, and we need to make sure we are making this a hospitable place for manufacturing in the United States.

Ms. CRAIG. Mr. Palmer, thank you so much. I am a founding member of the Supply Chain Caucus of the Congress, and who would have thought that that would be a sexy topic. With that—

Mr. PALMER. Thank you for doing it.

Ms. CRAIG. Madam Chairwoman, I yield back.

Chairwoman VELAZQUEZ. The gentlelady yields back.

I will go to Mr. Mfume from Maryland if he has any questions.

Mr. MFUME. I do, and I hope everyone can hear me. Thank you for returning back to me, Madam Chair. I just have a couple of observations, which, to me, are significant and maybe even poignant. It was my pleasure to serve on this Committee for 10 years during my first stint in the Congress, before I decided I would just voluntary leave and go do something else in life.

But one of the things interesting about that is that much has changed, and yet much still remains with respect to the topical areas that we are dealing with, Madam Chair. And I would—again, as I said earlier, this notion of lasting solutions is a key phrase because this will be over one day. The question becomes, what happens to the small businesses of America.

And lasting solutions are going to require ingenuity and creativity but also access to capital and access to credit, which was the major driving force in hearings like this in 1989 and throughout the 1990s, Madam Chair, when you were a member of the Committee. It is still a driving issue.

And I think about SBICs, which we created as a Congress in 1958, and I think about all the other initiatives, and I was very interested in hearing the phraseology about, we need an SBA on steroids. We really do, because we really always have needed that.

But there are some other things that I would think observationally that we might want to consider as we go down the road on this topic in future hearings, one of which is that—and by the way, Mr. Palmer, I appreciate your commentary and your information. I would slightly disagree with you on one matter. You said that minority businesses in many instances were not applying for some of the structured loans and other programs that are out there, whether it is SBIC or something else, because they didn't always have the knowledge.

I would suggest to you that many have not applied because they know that they are going to get turned down, as they have been turned down repeatedly, over and over and over again. And so my argument here is that we have to be deliberate in terms of what we do going forward, that we need a deliberate tax policy, a deliberate banking policy, a deliberate SBA policy, that we have got to find a way to create small venture capital, as someone said earlier, which is absolutely crucial. That is within the domain of the Congress itself.

And we have got to look at some of the other smaller things, like overly burdensome bonding requirements, the little things that create and push businesses sometimes to the edge.

So I am looking forward, Madam Chair, actually to this discussion continuing and going on, and I appreciate your leadership and the leadership of the Ranking Member on this. It is something that has fascinated me for a long time.

And now after having watched this unfold for the last 31, 32 years, since I first took an oath of office, it is perplexing how this issue is not only vexing, but it is repeating itself over and over and over again. So there is a lot of work to do in this area.

This notion about making sure that we are taking care of urban versus rural businesses is important also. I always say "urban and rural," and whether we are talking about minority-owned or women-owned businesses, there are a lot of niches here that we have the ability, I think, under your leadership in this Committee, to kind of cull together and put forward a kind of policy that many of our colleagues in the House would appreciate.

So, again, Madam Chair, thank you very, very much for your leadership. I am going to stop filibustering as if I were on the other side of the building right now and yield back the time that I have.

Chairwoman VELÁZQUEZ. Thank you so much and thank you for your contributions and your history of fighting for fairness, and especially civil rights, criminal justice reform. How do we contribute to make an economy that is just for everyone in this country?

Mr. Chabot, do you have any other question?

Mr. CHABOT. Madam Chair, I think this has been a very interesting hearing. I think the witnesses did a great job, all of them and—learned a lot, and hopefully on a bipartisan basis, we will put some of this into action.

So thank you for holding this.

Chairwoman VELÁZQUEZ. Thank you. Thank you.

Let me just say to all the panelists, thank you for your contributions, shedding light onto what is happening, and helping us put together an agenda that really reflects the unprecedented crisis that we are witnessing.

People love to say that small businesses are the backbone of America, that small business is the engine that fuels our economy, and this is a time that has shown that they need help. Otherwise, a lot of them are going to close their doors forever.

Dr. Cook, I am going to take an opportunity here in my closing remarks, to ask you a question. There are two issues that I want to raise, and one was raised by Mr. Bishop. He is frustrated because the EIDL program provides for loans of up to \$2 million.

However, the administration never expected the unprecedented numbers of loan applications, and rather than coming back to us to ask for an increase in the funding for the EIDL, they decided to cap it to \$150,000.

We are working on bipartisan legislation that will address this issue, and Dr. Cook, right now, there is, roughly, \$130 billion in the pipeline regarding the PPP, and I would like to see that 50 percent of that money is carved out for minority businesses and women-owned businesses.

One of the issues that we are confronting is that we don't know how well the PPP is working, because the data was not provided to us until last Friday at midnight.

Not only that, but by going through the data, we are finding a lot of errors. How do you assess the possibility of us setting aside 50 percent of the \$130 billion so that mission-based lenders will have an opportunity to make those loans? What impact would that have?

Ms. COOK. I think that would be critical, and I think it would be critical for several reasons. They were at the back of the line for many reasons that Ms. Cohen was outlining, but also because of these historical relationships, because of what Congressman Mfume was talking about, the systemic issues that have not yet been addressed. But I think that, yes, setting aside 50 percent, I think, would be extremely useful.

But I think the other thing that is being missed here—I am sorry I didn't say it earlier—is that the micro enterprises, the newest businesses, are where innovation comes from in America, and they are also being left behind.

So we could have a permanent ding on economic growth if we are not attending to those that don't yet have relationships with banks.

So I think for minorities, for the smallest businesses, I think we really have to do more. And they should be grant-based. There can't be this uncertainty that Ms. Cohen is talking about, because they don't have the capacity to figure all this stuff out, and we shouldn't put that burden on them.

Chairwoman VELAZQUEZ. Right. Micro lenders provide capacity-building for those businesses. We fought to get them as part of the mission-based lender in the second tranche of money that we passed.

Well, let me again thank all of the witnesses for your participation. I look forward to working together as a committee to help guide our country's small business owners through these unprecedented times.

I ask unanimous consent that Members have 5 legislative days to submit statements and supporting materials for the record.

Without objection, so ordered. If there is no further business before the committee, we are adjourned. Thank you.

[Whereupon, at 2:43 p.m., the committee was adjourned.]

APPENDIX



Testimony

Brett Palmer
President, Small Business Investor Alliance

before the
House Committee on Small Business
July 15, 2020

Access to Patient Capital:**The Long-Term Solution for Small Business, Job Creation, and Recovery**

Thank you for giving the Small Business Investor Alliance (SBIA) a chance to share our views on the long-term solutions to problems faced by small businesses. My name is Brett Palmer and I am the President of the SBIA. The SBIA is the trade association representing small business investors, including Small Business Investment Companies (SBICs). SBICs are venture capital and private equity funds that invest long-term capital into domestic small businesses. SBICs are licensed and regulated by the Small Business Administration (SBA).

For many, but not all, our economy was doing well prior to the pandemic and the ensuing government-mandated shutdowns. The pandemic's economic disruption has exposed, amplified, and intensified pre-existing problems faced by the nation's small businesses. It has also created new ones. These amplifications affect vast numbers of small businesses, but they are not evenly spread by geography, industry sector, stage of business, or race. It is important to remember that the job loss and business injury we have experienced are only first order effects of the pandemic. Second order impacts are only now beginning to emerge, and there are many bankruptcies and layoffs yet to come.

Existing Federal Programs Can Help

Like the variety of domestic small businesses, the problems are varied; however, there are common threads that can be addressed so that the economy can come back faster and stronger to benefit more Americans. As Congress considers how best to set policy and allocate government resources to help rebuild the economy, now is the appropriate time to review and improve existing government programs to make sure they provide maximum benefit, that they do so without creating unintentional barriers to their full use, and that they benefit all Americans.

Policy adjustments should address the immediate needs of small businesses in a way that takes into account past deficiencies and meets future needs. Three of the four proposals we offer for consideration cost no money and could be implemented quickly. One option may need a one-time appropriation, but would have out-sized job creating benefits and would not need ongoing government support. Instead of simply stimulus spending where the benefit is temporary, Congress has a chance to focus long-term and empower private sector investment to provide sustainable benefits to communities by enabling SBICs to grow businesses and create jobs.

Our economic problems are intense and will be long lasting, but access to patient capital is the core of the solution for small business.¹

Improving the SBIC program will help address the well-documented small business problems that existed prior to the COVID Recession, which include:

- Challenges accessing capital, which is particularly acute in lower income areas – both rural and urban;
 - Challenges accessing equity capital, also particularly acute in low income areas – both rural and urban;
- Massive concentration of venture and growth capital in a select few areas of the country;
- Large disparities accessing startup and growth equity for minorities;²
- Underinvestment in domestic manufacturing;
- Underrepresentation by women and minorities in venture capital and private equity funds;
- Too few small funds (fund size) which provide smaller investment amounts to serve growing small businesses (both equity and debt); and
- Rescission of short-term lines of credit, commonly pulled from small businesses in a recession.

There are also a host of new problems that have emerged in the COVID Recession. Unprecedented government-ordered shutdowns of the economy have caused outsized injury to many small businesses. A recent *Frontiers in Entrepreneurship* [report](#) detailed the severity and segmentation of the impacts on small businesses and entrepreneurship. For many, rent, loans, and other bills are due, but there is no revenue or not enough revenue. The threat of deadly illness to and from employees and customers is disconcerting and very expensive to address. Firms, especially minority and younger firms, have already failed or are at risk of failing at a much higher rate. This damage is happening before the second order economic impacts have emerged.

As we emerge from the uncertainty and open up to a new economy, small businesses across the country are faced with a host of new problems that SBICs can help address:

- Massive unemployment- 40+ million jobs lost, some permanently lost;
- Failure of many small businesses – estimates of up to 22%;

¹ Attached as an addendum to this testimony is a study of the SBIC program by professors from Duke and the University of North Carolina's business schools that was released just as the COVID pandemic was taking off, so it did not receive adequate attention. It is an excellent summary of the market gaps and challenges as well as the SBIC opportunity to fill those gaps and is very relevant to the subject of this hearing.

² <https://frontiers.unc.edu/wp-content/uploads/2020/06/June2020QuarterlyTrendsReport.pdf>

- Catastrophic failure of minority owned small businesses – up to 41% of Black-owned businesses lost;³ Ongoing uncertainty about course of disease and consumer demand;
- Concern among small businesses about taking on more debt because they cannot service it, or it will breach existing loan covenants; and
- Newer, high growth companies under greater duress.⁴

The American entrepreneurial spirit is strong, but to re-emerge and recover, small businesses will need:

- A semblance of certainty about the course of the disease and how both employees and customers can be protected in an open economy;
- Access to “Patient Capital” – equity, long term debt, or equity-like debt, which is capital that can sustain the ups and downs, fits and starts, of the pandemic;
- Capital to restart shuttered businesses; these businesses and equipment are still physically intact, and some can be restarted;
- To remove unintentional barriers to minorities forming SBIC funds:
 - Studies have shown that investment funds that include minorities as part of the investment team invest in more minority-owned and led businesses;
 - The number of black-owned businesses at risk or lost is staggering and need to be recapitalized;
- More SBIC funds with smaller capitalizations serving smaller businesses in more parts of the country:
 - Small funds invest smaller dollar amounts, which is helpful for small businesses that need capital in lower amounts than is available from many SBIC funds; and
 - Smaller SBIC funds that are the right size for smaller markets and less densely populated regions.,

SBIA believes that the SBA already has a framework in place that deals with many of the issues small business face. The framework, however, needs to be adjusted. Modifying existing programs is much faster, cheaper, and more effective than the alternatives. The proven SBIC program should be tailored to meet both preexisting and new needs.

³ <https://siepr.stanford.edu/research/publications/impact-covid-19-small-business-owners-evidence-early-stage-losses-april-2020>

⁴ <https://frontiers.unc.edu/wp-content/uploads/2020/06/June2020QuarterlyTrendsReport.pdf>

Proposed SBA Program Modifications

SBIA proposes modifying the SBIC Program with the following:

- **MicroSBICs.** Remove unintentional barriers to minorities and smaller communities forming SBIC Funds with a MicroSBIC “On Ramp” to forming a first time SBIC fund.
- **Equity Capital.** Enable SBICs to provide more of the most patient, impactful, and job-creating capital – Equity.
- **Geographic Diversity.** Make existing SBIC tools that provide patient “Equity-Like” capital to small businesses in all parts of the country.
- **Underserved Communities.** Encourage and enable SBICs to look for opportunities and make investments in underserved communities (both rural and urban).
- **Capacity Investments.** SBA’s Office of Investment and Innovation needs to be fully staffed and have better technology.

The Role of SBA and Small Business Investment Companies

The SBIC program has been extremely successful in fulfilling its mission to expand and empower domestic small businesses and help create millions of jobs.⁵ The SBIC program has been more inclusive to women and minorities than the broader venture capital and private equity markets.⁶ However, there are still too few SBICs, too few small SBICs, too few equity SBICs, too many geographic gaps, too few women and minorities running their own SBICs, and too few women and minorities accessing capital.

The needs created or exposed by the current unprecedented economic dislocation warrant changes in the SBIC program to address both the new needs and to address areas where SBICs have not yet been able to maximize their positive impact to as many communities as possible.

Over time and for many reasons, SBA has steered many SBIC funds away from earlier stage and growth equity strategy and toward more of a debt/equity mix and later stage transformational growth investing strategy, and away from forming smaller SBIC funds. The emphasis from SBA has been toward less risky

⁵ https://www.sba.gov/sites/default/files/articles/SBA_SBIC_Jobs_Report.pdf

⁶ https://www.sba.gov/sites/default/files/files/SBIC-Diversity-Report_0.pdf

debt and away from equity. SBA and many Limited Partners seem more comfortable with larger SBICs. So over time, fewer SBICs have been licensed to invest in the smallest businesses or in earlier stage businesses.

This movement to safer investing and toward more debt has enabled the SBIC program to continue to have a positive impact on small businesses and job creation, while maintaining a zero subsidy rate for nearly 22 years. However, it has also unintentionally limited access to critical capital, leaving certain business and geographic sectors across the country underserved. SBICs are effective and extremely beneficial to many small businesses, but there are still market gaps for capital that call for policy changes to expand the reach of SBICs to help fill those gaps.

The statutory mission of the SBIC program has always been important, but it is needed now more than ever:

“It is declared to be the policy of the Congress and the purpose of this Act to improve and stimulate the national economy in general and the small-business segment thereof in particular by establishing a program to stimulate and supplement the flow of private equity capital and longterm loan funds which small-business concerns need for the sound financing of their business operations and for their growth, expansion, and modernization, and which are not available in adequate supply: Provided, however, That this policy shall be carried out in such manner as to insure the maximum participation of private financing sources. It is the intention of the Congress that the provisions of this Act shall be so administered that any financial assistance provided hereunder shall not result in a substantial increase of unemployment in any area of the country.

It is the intention of the Congress that in the award of financial assistance under this Act, when practicable, priority be accorded to small business concerns which lease or purchase equipment and supplies which are produced in the United States and that small business concerns receiving such assistance be encouraged to continue to lease or purchase such equipment and supplies.”⁷

The government does not need to create new programs to address the long-term needs of small businesses, but it does need to adjust. Congress should take successful programs, like the SBIC program, and modify and modernize them to:

- Create more jobs faster;

⁷ https://www.sba.gov/sites/default/files/Small%20Business%20Investment%20Act%20of%201958_0.pdf

- Increase access to “patient capital”; Remove unintentional barriers to SBIC fund formation and thereby increase inclusivity of the program and the small businesses seeking capital;
- expand access to underserved communities; and
- Expand institutional capital and expertise to smaller businesses than those currently being served.

SBICs can help mitigate the job losses, empower job creation, save businesses that are under duress, and capitalize newly formed businesses.

Remove Unintentional Barriers with a MicroSBIC “On Ramp”

The SBA requires, among other requirements, that a person must have successfully run a venture capital or private equity fund before it will award an SBIC applicant a license. This requirement makes a lot of sense and has been a core element to the success of the program, but it narrows the pool from which SBIC fund managers can be drawn. It will be very difficult and slow to increase inclusivity recycling from the same talent pool without a creative strategy to break this cycle.

SBIA suggests that Congress create a MicroSBIC license option to create a meaningful path to entry into the SBIC program for a far broader group of people who have a successful and relevant track record growing small businesses. This is a far broader group of people than those who have already run an SBIC fund. These MicroSBIC licensees would first have to raise adequate external private capital as a condition of licensure because if the private market provides backing then it demonstrates to the SBA the likelihood of success for a MicroSBIC applicant. These MicroSBICs should also have a much lower leverage ratio and limit than regular SBICs because leverage amplifies investing both to the positive and negative, and firsttime funds are riskier. Another requirement for this particular license should be that the Investment Committee of the MicroSBIC must have at least two experienced SBIC fund managers to provide the investing experience that the MicroSBIC would not otherwise have. Many SBIC fund managers would be interested in helping the next generation of fund managers succeed. Having successfully run a MicroSBIC, the managers will be much more likely to successfully raise institutional capital and earn a full SBIC license with greater access to leverage.

MicroSBICs would fill important unfilled market needs. MicroSBICs will be smaller funds doing smaller transactions and, therefore, would fill a sizable gap in the smaller end of the market. MicroSBICs also can form anywhere in the country and thereby better serve underinvested areas including rural areas, inner cities, and smaller cities where there is very little access to venture capital, growth capital, or private equity.

Enable SBICs to provide more of the most patient, impactful, and job-creating capital – Equity

Equity capital is the most patient form of capital. There are no interest payments or defaults. Equity does not put loan covenants at risk. To the contrary, equity makes access to lending far more attainable. It is capital for the long term.

When the SBIC program had equity tools, more jobs were created, and more minorities received capital. SBIC equity investments averaged 480 to 580 new jobs per investment⁸. Debenture SBICs create about 150 new jobs per investment. SBIC equity and debt structures are both powerful job-creating engines, but the equity investments create more.

We need both tools, but with the significant job loss that must be recreated, small businesses badly need access to SBIC equity.

Massive amounts of venture capital and private equity are available in the market, but almost all of the money goes to large businesses, is deployed in too large chunks to be consumable to most small businesses, or is concentrated in a few geographies. SBICs invest in smaller amounts across a far broader geography – both rural, suburban, and urban.

Congress should create a simple, workable equity option for the SBIC program to provide patient capital and fast track job creation, promote domestic production, get equity outside of the few concentrated areas that are given nearly all the venture investment, and empower a new generation of entrepreneurs that represent all Americans. Establishing a revolving fund to provide equity capital via SBIC funds would greatly increase access to patient capital to the rest of America. With the vast majority of venture funds located and investing in just three places⁹, SBICs could and would serve the rest of the country. Equity tools would benefit all of America and are desperately needed in minority communities and rural areas. In a recent op-ed, Eddie Brown, founder of Brown Capital Management, amplified this point, explaining that “[t]oday, younger generations of blacks experience the same economic disparities as their grandparents did in the 1950s. Equity ownership, the rocket fuel for wealth creation, is also in few black hands”.¹⁰ Equity investments create opportunity. SBIA has model legislative language to offer as a

⁸ https://www.sba.gov/sites/default/files/articles/SBA_SBIC_Jobs_Report.pdf

¹⁰ Eddie C. Brown <https://www.washingtonpost.com/opinions/2020/07/08/im-black-ceo-ive-beendiscounted-wall-street-because-my-skin-color/?arc404=true>

straightforward and simple equity component to the SBIC program, and we are happy share it with any members of Congress interested in the issue.

Make Patient “Equity-Like” Capital Available

Millions of small businesses were injured by the COVID disruptions. For many small businesses, their revenues crashed, but their financial obligations did not. They are struggling under existing debt and other ongoing obligations and are hesitant or unable to take on more debt that must be serviced. Many small businesses drew down entire lines of credit to hoard cash and hunker down so they could survive the shutdown. Unlike the Great Recession, where bank regulators forced banks to call the loans on millions of small businesses, causing their failures, this time regulators have encouraged the banks to be patient with small businesses – and this has helped many small businesses. Many banks have not enforced loan covenant violations and have provided forbearance. But, at some point, banks are going to have to call loans, reduce lines of credit, and make fewer loans. This is not a matter of if, but when. Without this capital, many businesses that otherwise would be able to survive and grow back will fail.

Fortunately, the SBIC program has a proven tool that can provide “equity-like” capital that operates at a zero-subsidy rate, but access to its use is highly limited to certain geographies. Existing SBIC discounted debentures should be opened up for use in all areas of the country. These SBIC loans to small businesses waive interest payments for the loan’s first five (5) years, after which normal interest is due. This makes these loans have many of the benefits of equity but, unlike equity, these loans are non-dilutive. As banks inevitably pull back from the small business loan market, injured businesses will be able to recover if they are able to access this type of SBIC patient capital.

Making the existing discounted debentures geographically agnostic could be done immediately but does need legislative action.

Encourage and enable SBICs to look for opportunities and make investments in underserved communities - both rural and urban

SBICs invest across a far broader geography domestically than conventional venture capital or private equity funds. Even so, there are still significant geographic and demographic gaps. SBIA proposes that Congress create a no-cost incentive for SBIC managers to seek out opportunities in underserved communities. SBIC investments in smaller enterprises that are in Low-Moderate-Income (LMI) areas, Opportunity Zones, or that are in underserved groups (women, minorities, veterans, etc.) should get an

SBIC leverage cap waiver for those investments (up to a limit). Private capital requirements and leverage ratios would remain unchanged because there needs to be private capital coverage and no additional cost to SBA. This "bonus leverage" would encourage more SBICs to broaden their search and to look into these communities to find new opportunities because the more of these underserved investments made the greater total number of investments they will be able to make later.

SBA's Office of Investment and Innovation needs more people and better technology

Last summer, I testified before this Committee at an unusual oversight hearing of the SBIC program where we documented gross incompetence and mismanagement of the then-Associate Administrator. It was strangling the SBIC program. One year later, I am pleased to share that SBA Administrator Carranza's fresh leadership has been extraordinary and transformative. She brought in new management and appointed Christopher Weaver to run the SBIC program. The results have been extremely positive. Under their watch, more SBIC licenses have been issued in the last three months, during the stresses and dislocations of the pandemic, than were issued in the first 11.5 months of fiscal year 2019. The leadership of the Administrator and the professionalism of Mr. Weaver will result in the SBIC program helping many thousands of small businesses and their employees. Small business investors are also once again able to work collaboratively with the SBA to serve the common good. We offer sincere thanks to both the Administrator, Mr. Weaver, and this Committee.

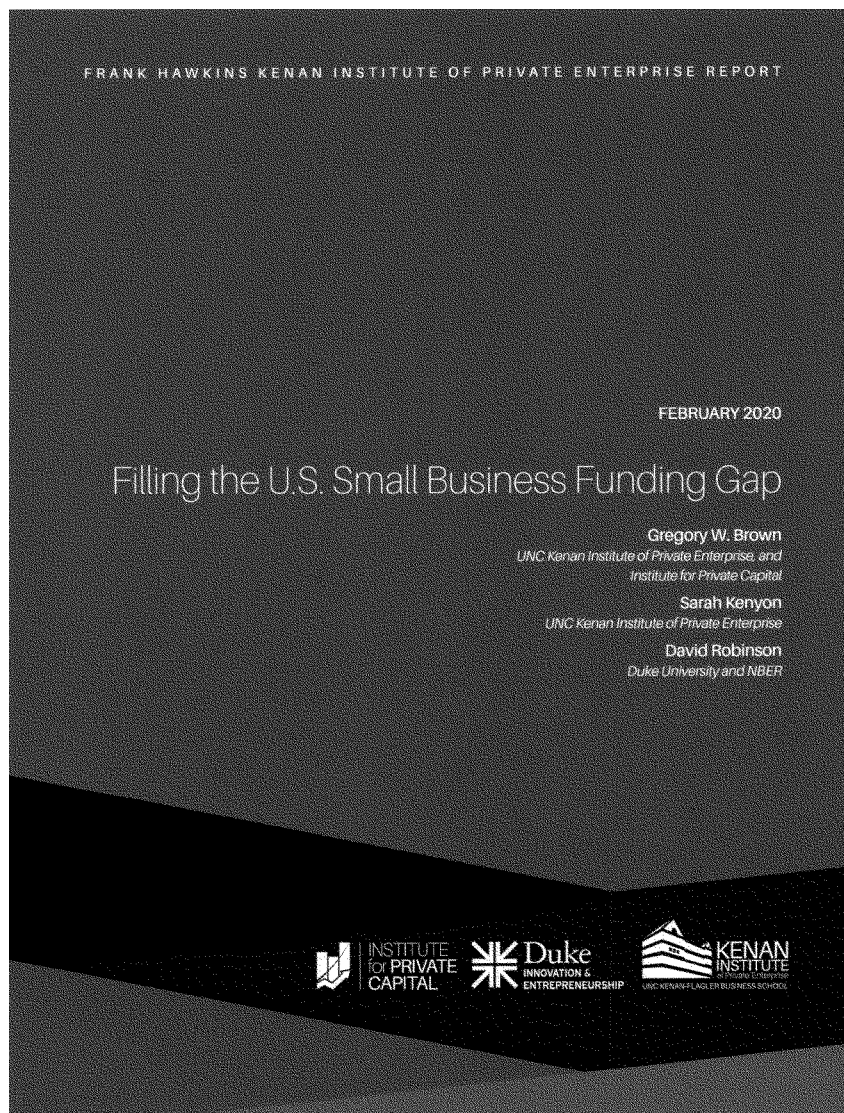
Small businesses need SBA to be able to function at the highest level. SBA now has good management, but they are still very short staffed and lack the basic technology tools readily available to other agencies and the private sector. Congress should replenish FTEs lost from the Office of Investment. Congress should also fund computer systems that will provide Congress better and more timely data for oversight and that will better enable SBA to make informed decisions and manage risk.

Investments in adequate staffing and updated technology will allow SBA to better serve small businesses over the long term.

Thank you for this opportunity to testify, and I would be happy to answer questions from Committee members.

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[Addendum attached]



Filling the U.S. Small Business Funding Gap

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February 2020

Abstract

Despite having the deepest and most diverse capital markets in the world, the United States still struggles to provide sufficient capital to many small businesses outside of major commercial centers as well as to women-owned and minority-owned businesses regardless of size or location. This paper reviews the academic literature and provides an analysis of some recent data to gain understanding of the causes of these gaps as well as the solutions for filling the gaps. Results indicate that the Small Business Administration's SBIC program is an effective mechanism for providing capital to underserved geographies as well as to businesses owned by women and underrepresented minorities.



Introduction

Capital markets in the United States are the envy of the world. The highly liquid U.S. public stock and bond markets provide trillions of dollars of capital to U.S. and global businesses. The U.S. banking system is highly developed and efficient, even if regulations introduced after the financial crisis have resulted in a reduction of lending activity to the small business sector.¹¹ Rapid development over the last three decades of other private capital markets including private equity (PE) buyout funds, venture capital (VC), and growth capital funds have resulted in these vehicles now regularly deploying more than \$100 billion in new capital each year.

Undoubtedly, the U.S. has the largest variety of institutional funding mechanisms in the world, resulting in the ability to provide capital to businesses of any size in all industries and geographies. However, the *ability* to provide capital is not the same as actually *providing* it. As we discuss in detail below, research documents systematic differences in access to capital for certain types of businesses, especially those located outside of major cities and those owned by women and underrepresented minorities.¹² This paper reviews the literature on funding gaps and provides a brief analysis of more recent data on Small Business Investment Companies (SBICs) and venture capital funds (VCs) to better understand how current funding vehicles may be effective in closing these funding gaps.

Our analysis shows that SBICs tend to provide more geographically dispersed funding and a higher percentage of funding to women-owned businesses. However, because SBICs are only a small part of the broader funding ecosystem, pronounced geographic and demographic differences in funding remain. This suggests the need to further scale the SBIC program in order to make more funds available to fill small business funding gaps.

The Role of Small Businesses in the U.S. Economy

Small businesses are a crucial segment of the U.S. economy. In addition to providing economic mobility, small businesses breed innovation, provide crucial services for communities and drive aggregate growth. Small businesses are responsible for about 45 percent of the total U.S. economic activity and contribute 41 percent of private-sector payroll (Kobe and Schwinn, 2018;

¹¹ See, Chen, Hanson, and Stein (2017)

¹² See, for example, Paglia and Robinson (2016).

SBA, 2017). Small businesses comprise more than 99 percent of all U.S. firms and created about 8.4 million new jobs from 2000 to 2017 (SBA, 2017). In 2012, 8 million—or 29.3 percent—of these firms were minority-owned businesses and 9.9 million (36.3 percent) were women-owned (SBA, 2017). To a large degree, small business owners reflect the American populace.

Small businesses range in industry and size and include sole proprietorships, light manufacturers, “Main Street” retail businesses, technology startups and wholesale distributors among others. The majority of small business are sole proprietorships, constituting about 23 million firms, with about another 4 million “Main Street” firms in traditional industries employing fewer than 500 people. Half of these “Main Street” firms have fewer than five employees and another third have between five and 19 employees (Mills and McCarthy, 2016). In addition, the U.S. has an estimated 1 million small business supply chain firms that specialize as wholesale intermediaries or service providers to other businesses. Recent academic research has shown these supply chain firms tend to have above average growth in employment and wages (Mills and McCarthy, 2016) and provide crucial logistics support to the broader business sector (Mills, 2015; Mills and McCarthy, 2016).

The small business sector also includes nascent firms. A vast body of research has shown that most job growth occurs in newly founded businesses, and that new firm formation in response to economic shocks is a critical source of job creation in the U.S. economy (Decker, Haltiwanger, Jarmin, and Miranda, 2014; Adelino, Ma, and Robinson, 2016). Within the United States, there are about 200,000 high-growth startup firms which commonly operate in the technology and health care sectors.¹³

Small businesses are integral to the success of a wide range of industries across the U.S. For example, more than 80 percent of construction employees and 60 percent of accommodation and food service workers are employed by small business firms (SBA, 2018). In addition, the U.S. is home to about four million professional, scientific and technical services small businesses and 2.6 million health care small businesses operating in a variety of sub-industries (SBA, 2018).

¹³ High-growth startups are defined as firms with fast growing, innovation-driven businesses and above average gross job creation. Only about 3 percent of all firms qualify as high-growth startups (Mills and McCarthy, 2016).

The Landscape of Small Business Funding

Almost every business begins as a small business. Research from the Kauffman Firm Survey shows that new businesses are typically financed through a combination of personal savings, contributions from friends and family and individual borrowing in the form of home equity lines, personal loans and credit cards (Robb and Robinson, 2014). More recently, “angel investors” and networks of angel investors have become more active in helping fund new startups. Angel capital groups typically invest personal capital into young or early stage firms (Drover et al., 2017). According to National Venture Capital Association, \$7.5 billion of angel funds were invested in 2018 (National Venture Capital Association, 2019).

Bank credit remains one of the main sources of financing for small businesses and “is key to helping small firms maintain cash flow, hire new employees, purchase new inventory or equipment and grow their businesses” (Mills and McCarthy, 2016). According to the Small Business Administration, banks loaned about \$600 billion to small businesses in 2015 alone (SBA, 2016).

Apart from self-financing and bank credit, small businesses can increasingly obtain capital to grow through private investment funds. For example, certain businesses can access capital through venture capital funds. However, venture capital funds invest primarily in mid-to-late stage rounds of young, high-growth firms with the ability to scale rapidly (Drover et al., 2017). According to the National Venture Capital Association, \$131 billion was invested in 2018 by the venture capital industry. Yet, of that total, only \$9 billion was invested in early-stage companies while \$62 billion was invested in late-stage companies (National Venture Capital Association, 2019).

Undoubtedly, the venture capital industry is a powerful force for fueling growth among U.S. companies. Akcigit, Dinlersoz, Greenwood, and Penciakova (2019) use the VentureXpert dataset to document that venture capital back firms on increased employment by approximately 475% when compared to a control sample over the same time horizon. In addition, the authors find venture capital backed firms are more likely to be in the top decile of firms in terms of employment ten years later. Babina, Ouimet, and Zarutskie (2019) use U.S. IPO data from 1992-2006 to show that small firms have a causal impact on aggregate employment growth. The

authors find evidence indicating that employment increases by more than 20% annually over the three years following an IPO.

But while the venture capital sector is responsible for a large portion of firms that go on to be publicly traded, only a tiny fraction of firms in the U.S. ever receive venture capital funding (Puri and Zarutskie, 2012). These investments are highly concentrated in firms with a specific growth profile, primarily located in the health care, technology and financial services industries.

The capital-raising challenges facing the typical small business have been known for decades and pre-date the growth in venture capital and private equity funds. In an attempt to facilitate better access to funding, the U.S. created the Small Business Administration (SBA) in 1953 with the mission of facilitating funding and providing technical assistance to support small businesses. Overall, SBA programs which facilitate traditional bank lending have been successful. Many studies document the positive impact of SBA-backed loans on small business growth and especially in underserved sectors. For example, Craig, Jackson, and Thomson (2008) use SBA loan data from 1991 to 2001 and find that SBA loans have a positive impact on business growth and household income levels in low-income communities.

In order to provide an alternative source of financing for high-risk small businesses lacking access to capital from traditional sources such as banks, the Small Business Administration (SBA) created the Small Business Investment Company (SBIC) program in 1958 (Paglia and Robinson, 2016). SBICs traditionally operate with a general partner (GP) who manages assets in a fund structure that includes passive investors who serve as limited partners (LPs). SBICs typically combine equity investments from private investors with government-guaranteed debt backed by the SBA (Paglia and Robinson, 2017). By leveraging their equity capital, SBICs are able to reduce their weighted average cost of capital and increase returns on equity. As of December 2015, SBICs have deployed more than \$80 billion in capital (two-thirds from private sector sources) into approximately 172,800 financing rounds for small businesses (Paglia and Robinson, 2017).

Of course, not all investment is good investment, so research has also examined the durability and broader impact of SBA programs and SBICs in particular. Results indicate that access to funding through SBA programs generally has a positive effect not just on short-run growth but

also on long-term growth and job creation. For example, recent evidence on the effect of SBIC investments documents a positive and durable impact on job creation. Using data from the SBA, Paglia and Robinson (2017) conclude that due to SBIC investments, 9.5 million jobs were created or sustained between October 1995 and December 2014. Of the 9.5 million, 3 million were new jobs. In addition, employment in small businesses funded by SBIC programs grew by 45.6 percent. More broadly, research shows that SBIC equity investments have a positive impact on net sales and employment growth and also accelerate broad economic gains (Link, Ruhmand and Siegel, 2014; Paglia and Harjoto, 2014).

Another source of funding overseen by the SBA is the Small Business Innovation Research (SBIR) program. The SBIR program specifically promotes investment in research and development by small businesses to generate pioneering new products and services. Link, Ruhm and Siegel (2014) use data on SBIR funding to investigate the effect of investments on innovation and commercialization. The authors find that firms which receive investments are more likely to engage in innovation strategies and exhibit accelerated commercialization of new technologies.

While the research discussed above documents the positive relationship between small business access to capital and growth, it does not address the question of whether the level of investment is sufficient, efficient or equitably allocated across the full spectrum of small businesses.

Funding Gaps

Not all small businesses that would benefit from investment are able to access external funds. This resulting inefficiency in capital access is commonly referred to as a “funding gap” (Servon, Visser, and Fairlie, 2011). According to National Small Business Association 2017 Year-end Economic Report, one in four small business is unable to access needed financing (National Small Business Association, 2017).

Broad Trends

The funding gap is most prominent for financing amounts under \$5 million because public markets and institutional fund investors are typically not interested in transactions below this threshold. Financings in the range of \$250,000 to \$5 million make up the majority of funding dollars but only 30 percent of transactions. Of the 70 percent of small businesses seeking

financing in amounts under \$250,000, more than 60 percent want loans under \$100,000 (Mills and McCarthy, 2014). Only 37 percent of firms seeking \$100,000 or less received the full amount requested, whereas 73 percent of firms requesting large amounts (\$10 million or more) received the full amount (Mills and McCarthy, 2016). The Federal Reserve Bank Small Business Credit Survey notes this trend, reporting that 53 percent of responders who sought funding for the first time received less funding than requested and only 48 percent of firms have met their financing needs (Federal Reserve Bank, 2019). Of the small businesses surveyed, 31 percent cited credit availability as a financial challenge experienced in the last 12 months, and 23 percent of firms applied for financing but experienced a shortfall (Federal Reserve Bank, 2019).

As a case study to investigate capital access gaps, Servon, Visser, and Robert (2011) measure the capital access gap for small business within New York City. Using data from the Characteristics of Business Owners Survey, Survey of Business Owners, Survey of Small Business Finance and County Business Patterns Data, the researchers compare supply and demand for small business loans and develop an estimate that in New York City alone, there exists a \$6 billion capital access gap (in New York City alone). Taken together, these results pose an important question: What is causing the funding gap?

By their very nature of most young or small businesses have few hard assets and lack extensive credit histories. A Federal Reserve study confirmed this challenge, citing that 33 percent of firms were denied credit due to insufficient credit history (Federal Reserve Bank, 2019). The lack of credit history presents a challenge for banks when small businesses seek traditional bank loans. In order to obtain information about credit worthiness, banks rely on information about the small business from other sources such as personal wealth, income, debt or home ownership to determine loan default probability (see, Craig, Jackson III, and Thomson, 2008; Berger, Frame, and Miller, 2005; Ahmed, Beck, McDaniel, and Schropp, 2015).¹⁴ In addition to a lack of credit history, fulfilling collateral requirement can be challenging and prohibitive for new small firms

¹⁴ Personal financial wealth is an important signal of credit quality for new businesses (Cavalluzzo and Wolken, 2005; Robb and Robinson, 2017). Adelino, Schoar, and Severino (2015) demonstrate this connection using county business patterns data from 1998 to 2010 obtained from the U.S. Census Bureau. The authors found that “areas with rising house prices (and increased leverage) experienced a significantly bigger increase in small business starts” (Adelino, Schoar, and Severino, 2015). Cavalluzzo and Wolken (2005) use data from 1998 Survey of Small Business Finances and find that personal wealth is a significant indicator for predicting loan denials. In particular, “home ownership is associated with approximately a 30 percent reduction in the predicted probability of loan denial.”

in obtaining needed funding. A recent Federal Reserve Bank survey reported that insufficient collateral as one of the reasons why small businesses were denied loans, finding that 35 percent of loan denials were due to insufficient collateral (Federal Reserve Bank, 2019).

Another headwind for small businesses seeking to obtain traditional bank loans has been bank consolidation. Over the last 30 years, banks have undergone substantial consolidation across the nation. In 1986, there were 14,252 commercial banks across the U.S. compared with just 4,687 by the end of 2018. When banks consolidate into a larger institution, they are less likely to lend in smaller amounts as these loans are generally more expensive and less profitable. Since the mid-1990s, small loans as a share of total loans on the balance sheets of banks have declined in nearly every year even though the overall commercial loan balances of banks have continued to rise (Mills and McCarthy, 2016; Mills and McCarthy, 2014, Ahmed, Beck, McDaniel, and Schropp, 2015).

Geography and Industry

Within these broader trends, some small businesses are more effected than others. Increasingly, institutional capital markets discussed above are focused on large firms. Most of these firms are publicly traded and headquartered in major metropolitan areas, but there is a significant geographic dispersion of public company headquarters. However, the rapid growth of private equity, venture capital, and growth capital funds has resulted in businesses avoiding public markets and accessing an ever-growing pool of institutional private capital.¹⁵ While there are likely many benefits to firms staying private longer, one consequence has been a shift in focus as to where capital is provided. For example, certain types of private capital such as venture fund investments are highly concentrated in a few geographies and in certain industries. In contrast, other investment vehicles such as SBICs are less concentrated by geography and industry. To demonstrate these differences, we undertake an analysis comparing recent investments made by venture capital firms and SBICs from 2014-2018.

We collect data from two sources. The first is from the SBA on SBIC funding by state and by year from 2014-2018. These data capture all SBIC financing rounds for this recent five-year period. Overall, the data show 13,576 financing rounds for 5,724 small businesses receiving \$29

¹⁵ See Ewens and Farre-Mensa (2017).

billion in capital. There exists a wide dispersion in geography with at least one company in all 50 states receiving an SBIC financing round during this period. Unfortunately, we do not have data from the SBA for these years by industry or by business ownership type. To better understand industry and ownership gender trends we collect information on a subset of transactions from PitchBook. We find information on transactions totaling \$5.3 billion, roughly one-fifth of all financing dollars. To compare SBIC financing with venture capital funding, we collect similar data from PitchBook on venture capital funding rounds. We obtain information on \$429 billion in VC funding from 2014-2018.

There are significant differences in the geographic dispersion of funding between SBICs and VCs. Table 1 shows total funding by state rank.¹⁶ A large majority (71.4 percent) of venture capital funding goes to just the top three states. In contrast, the top three states account for one-third of SBIC funding. Consequently, relative funding in remaining states is higher for SBICs than for VCs. The differences persist even to the bottom 25 funding states, which receive just 1.3 percent of VC funding compared to 8.3 percent of SBIC funding.

Table 1. Total Funding Percentages by State Rank, 2014-2018

States	Venture Capital	SBIC	Difference
Top 3 States	71.4%	33.3%	38.1%
4-10	16.2%	30.4%	-14.2%
11-20	9.1%	20.3%	-11.2%
Bottom 25 States	1.3%	8.3%	-7.0%

Data Sources: PitchBook; SBA

Figure 1 examines these differences graphically by plotting the percentage of total capital provided by VCs and SBICs by state. Panel A shows results for VCs and Panel B shows results for SBICs. The shade of blue indicates the percentage of overall funding. For example, the dark blue shading for California in Panel A indicates that more than 20 percent of funding from VC funds from 2014-2018 was in California. Panel B shows that during this time period, there was

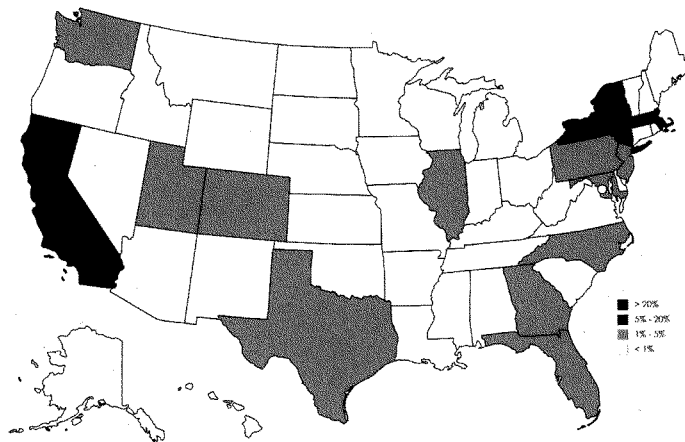
¹⁶ Specifically, states are ranked by total funding levels for the 2014-2018 period independently for VC and SBIC investments. For example, the top three states for VC investments are California, Massachusetts and New York and the top three states for SBIC investments are California, New York, and Texas.

no state that received 20 percent or more of SBIC funding. The graph shows that two states (New York and Washington) received between five and 20 percent of VC funding whereas five states received between five and 20 percent of SBIC funding. Most apparent is that only another 11 states received more than one percent of overall VC funding whereas another 22 states received one percent or more of SBIC funding. Together these results indicate that funding tends to be concentrated in more populous states for both VCs and SBICs but the dispersion in funding by SBIC is much greater than for VCs. Nonetheless, the scale of VC investing is more than an order of magnitude larger than SBIC funding, so the differences in funding amounts (as opposed to percentages) do not reflect these differences.

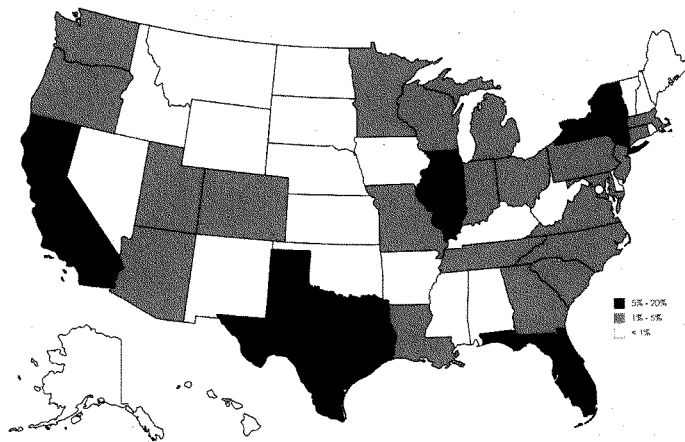
The industry-level data on SBIC and venture capital funding also indicate some important differences. As discussed previously, VC funding has historically been concentrated in just a few industries whereas SBIC funding has been more widely distributed. Table 1 shows data from 2014-2018 based on data provided by PitchBook. Between 2014 and 2018, 82.3 percent of funding was provided to the top three sectors: information technology (IT), health care and business-to-consumer. Over this same period, SBICs also provided close to 80 percent of funding to these sectors but with more of a focus on health care and less on IT. SBICs were more inclined to provide capital to the business-to-business sector than VCs, and less inclined to make investments in financial services. One possible concern about these data are that reporting in PitchBook is skewed toward certain sectors given PitchBook's focus on the venture capital industry. Again, we emphasize the differences in scale between the SBIC and VC funding levels, so even after adjusting for incomplete coverage of SBIC funding, the VC funds provide more capital to every sector.

Figure 1. Percentage of Financing to Businesses by State, 2014-2018

Panel A. Venture Capital



Panel B. SBIC Program



Data Source: PitchBook; SBA

Table 2. Total Capital Invested by Industry Sector, 2014-2018 (US\$ million)

Sector

Type of Investment	Business-to-Business	Business-to-Consumer	Energy	Financial Services	Health Care	Info Tech	Materials & Resources	All
Venture Capital								
Amount	40,493	85,463	10,791	20,551	101,700	166,050	4,015	429,063
Percentage	9.4%	19.9%	2.5%	4.8%	23.7%	38.7%	0.9%	
SBIC*								
Amount	996	1,030	140	20	2,141	879	113	5,318
Percentage	18.7%	19.4%	2.6%	0.4%	40.3%	16.5%	2.1%	

Data Source: PitchBook

* SBIC data represent only 18.2 percent of total SBIC financings during this period.

Women and Minorities

Gender and race influence small business owners' ability to access credit.¹⁷ Using data from the National Institute of Health, Gicheva and Link (2013 and 2015) find that female-owned companies are less likely to receive private investment. Similarly, Asiedu, Freeman and NtiAddae (2012) examine data from the 1998 and 2003 Survey of Small Business Finances and find that loan denial rates for black-owned small businesses are significantly higher than for white male owners and other minority groups.

While the literature has not fully identified the reasons for these gaps, certain characteristics are consistently present among the studies including lack of credit history, fear of rejection and underrepresentation in the investment industry. Minorities, on average, have a lower household net worth than whites, which directly affects loan size and increases the rate of loan denial (Bates, Bradford, and Seamans, 2018; Fairlie, Robb and Robinson, 2016). For example, the median net worth for black households is \$12,780 compared to \$110,500 for white households (U.S. Census Bureau, 2019). Differences in lending activity are largely due to the relatively low credit scores for black business owners and not to differences in need for capital. In addition, funding discrepancies between minority and white startups persist after years of operation (Fairlie, Robb and Robinson, 2016). Cole and Sokolyk (2016) using data from the Federal Reserve Board's Surveys of Small Business Finances (SSBFs) find that between 21 and 55 percent of businesses whose owners did not apply due to fear of rejection would have been approved for credit. Recent research indicates that this fear may disproportionately affect women

¹⁷ See, Mijid and Bernasek, 2013; Bates and Robb, 2015; Gicheva and Link, 2013; Gicheva and Link, 2015; Asiedu, Freeman, and Nti-Addae, 2012; Robb 2013.

and minorities; for example, black entrepreneurs are about three times more likely to not apply for credit due to fear of credit denial.¹⁸ Nevertheless, low average credit scores among minority business owners are a major factor in explaining the average differences in access to credit across racial groups (Fairlie, Robb and Robinson, 2016; Robb and Robinson, 2017).

Several studies note a chronic underrepresentation of women and minority investment professionals in the venture capital and private equity industry. Research also documents the relationship between a lack of diverse investment professionals and investments in gender and racially diverse companies.¹⁹ A 2016 survey issued by the National Venture Capital Association finds that only 14 percent of VC firms surveyed had at least one female investment partner and only three percent had at least one black investment partner (NVCA-Deloitte, 2019).

While the typical private equity and venture capital fund (and portfolio investment companies) lack diversity, other types of investment vehicles appear to mitigate the problem. Using PitchBook and SBA diversity data from 2013 to 2015, Paglia and Robinson (2016) find that SBIC funds had a higher percentage of female investment professionals (11.9 percent compared to the broader venture capital and private equity investment community with just 7.9 percent). The study was unable to draw a firm conclusion about racial diversity because of a lack of diversity data available in PitchBook but found that 10.2 percent of SBIC funds have at least one minority partner. The authors also find that racially diverse investment groups are more likely to invest in minority-owned and minority-led companies as well as invest more in LMI communities.

We use the PitchBook data from 2014 to 2018 to update the results of Paglia and Robinson (2016) on financing provided to women-owned businesses. We classify a company as femalefounded if any member of the founding team is a woman. Results are presented in Table 3. We confirm that in this more recent period, female-founded companies received a higher percentage of SBIC funding than VC funding. From 2014 to 2018, SBICs in our sample provided about 44 percent of total funds to female-founded businesses. In contrast, female-founder businesses received only about 10 percent of total funds invested by VCs during the same period. In some specific sectors such as IT, financial services, health care, and B2B, the difference is

¹⁸ See, Bates and Robb, 2013, 2015; Mijid and Bernasek, 2013; Fairlie, Robb, and Robinson, 2016.

¹⁹ See, Paglia and Robinson, 2016; Kanze, Huang, Conley, and Higgins, 2018.

quite large, though the sample size is very small for SBIC funding of financial services. Overall, these results are consistent with prior evidence on the ability of SBICs to provide funding to businesses identified as prone to funding gaps even though the dollar values of funding are low compared to VC funding.

Table 2. Total Capital Invested by Industry Sector, 2014-2018 (US\$ million)

Type of Investment	Sector							All
	Business-to-Business	Business-to-Consumer	Energy	Financial Services	Health Care	Info Tech	Materials & Resources	
<u>Venture Capital</u>								
All	40,493	85,463	10,791	20,551	101,700	166,050	4,015	429,063
Female-founded	2,310	9,614	1,535	2,461	13,479	11,784	295	41,478
Percentage	5.7%	11.2%	14.2%	12.0%	13.3%	7.1%	7.3%	9.7%
<u>SBIC*</u>								
All	996	1,030	140	20	2,141	879	113	5,318
Female-founded	495	38	30	20	887	760	95	2,324
Percentage	49.7%	3.6%	21.5%	100.0%	41.4%	86.4%	84.3%	43.7%

Data Source: PitchBook

* SBIC data represent only 18.2 percent of total SBIC financings during this period.

Conclusions

Significant funding gaps exist for U.S. small businesses needing capital to grow. These gaps are not uniformly spread across all businesses, but instead have a disproportionate impact on small firms in certain industries, geographies and ownership structure. A variety of initiatives and programs seek to close the gaps for all businesses but with a special focus on businesses where more institutional capital providers (e.g., large banks and venture capital funds) are less likely to provide funding. We specifically review the literature related to the role of SBICs in closing funding gaps. We also provide preliminary analysis of funding trends in recent years (2014-2018) for venture capital funds and SBICs. We find that SBICs tend to provide relatively more capital outside of the largest states, have a more well-diversified industry profile and are making investments in women-owned businesses at higher rates. However, the current smaller scale of SBICs limits the aggregate impact of these advantages. These results suggest the potential for significant reduction in small business funding gaps if SBIC activity can be scaled significantly without affecting the mix of small businesses receiving investments.

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Testimony

Amanda Cohen
Chef and Owner, Dirt Candy
“Long Lasting Solutions for a Small Business Recovery”
Committee on Small Business
United States House of Representatives

July 15, 2020

Chairwoman Velazquez, Ranking Member Chabot, and distinguished members of this committee, thank you so much for inviting me to testify today about my experience with the Paycheck Protection Program, the experience of other independent restaurants, and what this industry needs to survive the rest of the year and beyond. Independent restaurants like mine are in each of your districts and the majority of us are frightened by the prospect of losing our business in the near future. Your timely decision to have this hearing and include my voice is much appreciated and the help we are seeking is desperately needed.

My name is Amanda Cohen and I am the chef and owner of Dirt Candy on the Lower East Side in Manhattan. Chairwoman Velazquez has been a longtime advocate for business owners like me, and I am honored to appear today as a voice for so many voiceless businesses.

Dirt Candy is a fine dining vegetarian restaurant in New York with about 40 seats and a bar. We started back in 2008 with just 18 seats, but outgrew our first location and in 2015 we moved to this new one on the Lower East Side. We offer two tasting menus that focus on really experimental and inventive vegetable dishes and we don't accept tips because we pay our workers a living wage.

I also am honored to represent the leadership team of the Independent Restaurant Coalition (IRC), a newly formed coalition of thousands of chefs and restaurateurs across the country who organized for the first time in response to the pandemic. We represent America's nearly 500,000 independent restaurants—nearly three quarters of all dining establishments in the country—who don't have the same access to significant debt instruments or private equity as corporate-owned businesses.

Today, I am going to share how the pandemic has impacted Dirt Candy, an experience that will sound familiar to the over 500,000 other independent restaurants across the country. I'm also going to explain why Congress must pass the RESTAURANTS Act (H.R. 7197) to ensure the 11 million people that work in independent restaurants and the five million more in the industry's supply chain can get back to work as soon as possible.

Business Status

Dirt Candy re-opened a week ago today for outside seating, the first time since New York's shutdown orders. The day we reopened, it rained, and we had to completely alter our plan again.

Outdoor dining has forced us to dramatically alter our menu and processes for serving customers. A number of our dishes are not conducive to heat, rain, or a long time outside. Our seating is on a ramp to the Williamsburg Bridge, which is not the best spot for a refined meal, but it is what we have at this point, so we are working to make the best of it.

We were not able to pay our employees during the shutdown, so many went on to unemployment or took other jobs. While I received a Paycheck Protection Program (PPP) loan, I chose not to use the money then because it was unclear when we could once again reopen. More on that in a minute.

Anyone who opens a restaurant tries to pack it full of people looking for a great night out, whether that's a celebration, an escape from the kids, a date, or any other kind of dining experience. People have always wanted to be around people, be close to the action, and find their scene.

Today as we struggle through the pandemic, people are looking to be as far away from each other as they can. Even as we've moved to outdoor seating and search for ways to continue to serve our customers, my business model – rent, staffing, menu – have all been predicated on filling all of my seats and turning them over twice and sometimes three times a night to maximize the work that everyone on my team does. If my fixed costs of running a business don't change and demand for dining out remains low, there is no way Dirt Candy can survive.

Like a lot of restaurants, we've revamped our menu from fine dining to delivery and take-out meal kits, sandwiches, salads, and sides, and we've done okay. But Dirt Candy has never had a take-out or delivery business before, so we don't have a built-in customer base that's used to ordering from us on a regular basis. We've discovered that we're having to build a new business from scratch. My dining room sits idle. Most of my staff have not been rehired. My colleagues tell me the same thing: takeout is only making up about 30% of lost revenue on average. Outdoor dining and in some cases limited indoor dining makes up more. But in my conversations, few if any restaurants are above 60% and most are below 50% of last year's year-to-date revenue.

There is a larger issue: going out to a restaurant is not considered to be safe. So long as people do not believe it's safe to eat out, our businesses will have a hard time surviving. Many people won't feel comfortable going until we have a vaccine that works. This is an issue unique to our industry as state and local government begin the difficult process of reopening. I urge you to consider the unique obstacles restaurants face as you look towards the next round of economic stimulus package.

PPP Experience

When the pandemic hit, I laid off all 35 employees at Dirt Candy. About six weeks ago, I rehired one person to help get the restaurant ready to re-open in its current form. As of today, I have rehired only 17%, or six, of my employees and don't plan to hire others for the foreseeable future.

This was only possible because of PPP. In fact, the changes to the effective date of PPP this Committee worked on and went into effect in June is the only reason I could afford to reopen

Dirt Candy. I could not have even rehired this 17% of my workforce without PPP. But I was lucky. As you have heard, many restaurants had trouble accessing the relief from PPP and those that did—like me—still aren't in a particularly strong position as a business.

Even if my doors are open, there are still 29 more people who used to count on Dirt Candy for their well-being who are out of work. With limited outdoor seating, limited demand, and a dining room on a ramp to the Williamsburg Bridge on beautiful summer evenings, as well as rainy ones, it is hard for me to see a time when I am back up to 35 employees this year, or even early next.

Independent restaurants employ about 11 million people across the country and were the hardest hit by rising unemployment since March. The restaurant industry employs over one million single mothers, employs more minority managers than any other industry, and is the first job for many Americans. Operating below full employment will have ripple effects on our communities that we don't yet understand.

My experience is not unique. Almost every independent restaurant across the country struggles with these same issues, or worse. Some could not access the PPP because their bank took care of other customers first or their bank rejected their applications. Others were afraid to use the loans they got and returned them because they could not afford to make a mistake and take on more debt. Those who got and used PPP loans are seeing them run out or not bridge the time needed to fund operations in this uniquely affected industry.

The PPP program helped me reopen, but the RESTAURANTS Act, which I will discuss now, will help independent restaurants survive until this pandemic subsides.

RESTAURANTS Act

The one thing that would be enormously impactful for the industry is passing Congressman Earl Blumenauer's RESTAURANTS Act. The Chairwoman has cosponsored this bill, for which I am grateful, as have eight more members of this committee. Independent restaurants generate \$271 billion in direct and indirect economic activity. Passing this bill would reduce the unemployment rate by 2.4%. As many as 85% of independent restaurants say they will close without direct help. Passing this bill would help avoid this disaster.¹

Restaurants need your help. As you can see from my testimony above, PPP, with the significant changes Congress made in the late spring, is an 8-week solution to an 18-month problem for restaurants. My PPP loan allowed me to reopen but it is not going to allow me to stay open, even if it is forgiven.

A number of members of this body and the Senate have considered new loan programs. I really appreciate their desire to help restaurants like Dirt Candy and like my favorites – Nom Wah Dim Sum, Cervo's, Partybus Bakeshop, and Roasting Plant. But the last thing we need right now is more debt, regardless of the lender or the terms.

¹ All data from Economic Report found in Addendum 2

Mr. Blumenauer's bill would provide grants to restaurants to allow us to make up some of the money we are losing to pay staff, make our suppliers whole, provide benefits to our team members, pay our rent or mortgage, pay for the changes needed to serve anyone in this era -- like personal protective equipment, outdoor seating, new barriers, and anything else needed to adapt to being a socially distanced public gathering place.

The safety of my team and our customers is paramount to me. As we are still in the infancy of our reopening, I am working every day to make sure we can make everyone as safe as possible, but if I have to close again in a week, a month, or two months, it is going to be completely devastating.

I am a chef, because I love to cook and serve people. In my case I like to do it with unique vegetarian options in one of the greatest cities in the world. If the RESTAURANTS Act passes, I can keep doing what I'm passionate about. If it doesn't, I don't know how I am going to survive or how 85% of independent restaurants in every district represented on this committee will survive.

Supply Chain

Dirt Candy does not stand alone. Our restaurant supports farmers, vintners, brewers, liquor purveyors, and an entire supply chain. Most other restaurants add fishers, ranchers, and other parts of the supply chain to this list.

We are hearing horror stories about all kinds of food spoiling or being thrown away. In fact, \$1 billion in perishable goods were left sitting in the stagnant supply chain within one week of dining rooms closing. A chicken processor decided to invest in a complete pivot to wholesale due to the fact that they expect restaurants to permanently close at an alarming rate nationwide. The supply chain is struggling from top to bottom to adapt to the changing landscape in restaurants. They are trying to go direct to consumer or repackage their goods to get them sold to people who want them, but in a lot of cases they are wasting food. This can't last forever.

Helping restaurants helps the over five million people who supply them. The RESTAURANTS Act specifically would allow us to make our suppliers as close to whole as possible. Addendum 1 to this testimony is a letter from over 215 businesses that supply restaurants endorsing the RESTAURANTS Act.

I want nothing more to be able to be back to normal and supporting my farmers and suppliers and they want nothing more than that too. In the meantime, however, we need help to get through these times until we can get back to normal.

Tourism/Hospitality

I am lucky. Dirt Candy has gotten positive reviews from both critics and diners alike. People come from all over the world to New York and some of them take their time to come to my small corner of the world to try Dirt Candy. They support my team. They also support hotels, taxis, airlines, Uber and Lyft, bike share, the MTA, and so many other parts of the tourism and hospitality industry.

New York is not alone. Imagine planning a trip to Chicago, San Francisco, Charleston, Atlanta, or Washington D.C., without being able to visit the great restaurants they have become known for. Independent restaurants draw millions of tourists from all around the world. In 2019 total spending by domestic and international travelers on food services in the United States was \$279 billion—more than double the amount spent on either recreation or retail.

I am proud people want to travel to eat what I cook. I love to meet them and talk to them. I love to share my work with them. I am so happy that they make Dirt Candy part of their travels. And I want to get back to that as soon as possible.

As you can imagine, that's not possible now and all of these industries are struggling. I want them to bounce back just like I want restaurants to survive and thrive because at the end of the day, we are all connected.

Conclusion

Thank you, again, for the opportunity to be here and to share the story of independent restaurants with you. I sincerely hope that you will find a way to help independent restaurants with all of the hard work you are doing on behalf of small businesses across the country.

Addenda

Addendum 1: Supplier Letter in Support of the RESTAURANTS Act
(<https://www.saverestaurants.com/news-item/supplier-letter/>)

Addendum 2: Economic Study (https://media-cdn.getbento.com/accounts/cf190ba55959ba5052ae23ba6d98e6de/media/EmH1JsVMRNylmKAeF2FJ_Report.pdf)

Testimony of Lisa D. Cook
Professor of Economics and International Relations
Michigan State University
“Long-Lasting Solutions for a Small-Business Recovery”
Hearing of the Committee on Small Business
U.S. House of Representatives

July 15, 2020

Chairwoman Velazquez and Ranking Member Chabot, thank you for the opportunity to address the Committee on Small Business on the topic of “Long-Lasting Solutions for a Small-Business Recovery.”

The coronavirus pandemic and the resulting human, economic, and financial crises are unfolding at break-neck speed. And, as a result, small firms are in crisis.

The quick action of Congress has gone a long way to lessen or postpone the pain associated with this pandemic-induced recession. Specifically, assistance to small businesses to keep paying employees through the Paycheck Protection Program (PPP) was a critical lifeline for many small businesses.

Prior to the pandemic, most small firms reported being in good shape, and 73 percent reported that their financial health was good or stable. Nonetheless, minority-owned firms had at least two strikes against them before the pandemic – their financial situation and the sectors in which they are concentrated, which render them more vulnerable in the wake of a pandemic.

Before March 2020, the financial health of small firms varied greatly depending on the race or ethnicity of the owner. Compared to 27 percent of small white firms reporting that they were “at risk” or “in distress,” 49 percent of small Hispanic firms and 57 percent of small Black firms reported being “at risk” or “distressed.”¹ This fact suggests that Black and Hispanic firms would be less prepared to weather an adverse shock. According to the Federal Reserve, distressed firms are three times more likely to close relative to healthy firms due to a two-month revenue shock.²

Further, similar to the concentration of employment that makes Hispanic and Black workers more vulnerable to Covid-19, the concentration of small minority-owned firms in certain sectors makes them more vulnerable in the wake of Covid-19. These sectors in which small minority-owned firms are overrepresented are accommodation and food services, personal and laundry services, and retail.³

¹ McKinsey (2020).

² McKinsey (2020).

³ McKinsey (2020).

By early May, it is estimated that 100,000 small businesses, or two percent of small businesses, had already closed.⁴ By mid-June, of the businesses that are listed on Yelp, 140,000 of those closing since March 1 were still closed by mid-June. Thirty-five percent of shopping and retail businesses listed have closed their doors temporarily. 53 percent of restaurants listed have closed their doors permanently.⁵ The burden of business closures is also unevenly distributed. Forty-one percent of African American businesses reporting being closed, compared to 35 percent overall (Fairlie 2020). In the only survey providing demographic data on PPP loan recipients, Color of Change reports that 45 percent of Black and Latino businesses will close by the end of the year without more relief. Minority-owned businesses also report not being able to access PPP loans due the heavy reliance on large banks, with whom they have had historically poor relationships.⁶ Over a third of small businesses reported paying reduced rent or deferred rent payments.⁷

Prior to reopening, states that received more PPP loans and with more generous unemployment benefits had less severe declines and faster recoveries (Bartik, Bertrand, Lin, Rothstein, and Unrath 2020). The results from early-reopening states suggest that many small businesses, such as restaurants and bars, will need to close again. Data from Open Table had begun to show a slow, steady recovery from early May. However, this trend started reversing itself in early July. In Texas, this meant that seated dining business went from a fall of 60 percent relative to a year earlier at the end of June to a fall of 75 percent relative to a year earlier in early July.⁸

In Five-Thirty-Eight's most recent survey, the majority of macroeconomists believe that there will be a partial rebound in economic activity and a slow recovery, rather than a V-shaped, sharp recovery.⁹ Given that consumer spending is 70 percent of GDP, it is clear that more and extended help to the American people and small businesses will be urgently needed.

In addition, demographic data on the PPP were supposed to be tracked such that the most vulnerable firms would be prioritized. These data should be collected, and any current and additional relief should be targeted at these firms, including minority-owned. In the long run, the systemic factors leading to the structurally fragile nature of these small minority-owned firms, regardless of the presence of a pandemic, should be addressed.

Any and all relief to the American people and the small businesses they and their families founded should be authorized and disbursed with all deliberate speed.¹⁰

⁴ Bartik, Bertrand, Cullen, Glaeser, Luca, and Stanton (2020).

⁵ Grossman (2020).

⁶ Color of Change (2020).

⁷ Bartik, Bertrand, Cullen, Glaeser, Luca, and Stanton (2020).

⁸ Guzman (2020).

⁹ Paine and Thomson-DeVeaux (2020).

¹⁰ See Cook (2020) for a detailed proposal to use mobile money to get direct federal payments to Americans quickly.

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We Need a National STARTUP-SKILLING Program Now!

Pete Blackshaw, CEO - Cintrifuse

**Testimony Before the U.S. House Committee on Small Business
"Long-Lasting Solutions for a Small Business Recovery"**

July 15, 2020

Synopsis

To prepare for our post-outbreak job market, we need to help American small business owners prepare themselves and their employees for a new economy — not just with re-skilling or up-skilling programs, but also with STARTUP-SKILLING programs that help small business owners think, learn, iterate, pivot, crowdsource, and move like startups. This is the key to personal and business resilience in a world of unending disruption — and a game-changing opportunity for unprecedented economic inclusion.

Full Testimony

Thank you for the opportunity to speak to you today. I am the CEO of Cintrifuse, an organization committed to building a leading innovation economy in Greater Cincinnati. We provide services to hundreds of entrepreneurs and manage a 38,000 sq ft co-working space in Cincinnati's urban core. We also unlock innovation through \$115 million in invested capital from corporations such as P&G, Kroger, Western & Southern, and EW Scripps. As for me, I've launched and sold a tech startup and recently served as Global Head of Digital for Nestle.

I have just one core message that I'd like to share with you today: the best way to help small business owners thrive in this uncertain world is to help them think and act like startups — the entrepreneurs who are disrupting every part of our economy and, in the process, creating new jobs, game-changing technologies, and new, better ways to live and work.

When I say startups, I don't necessarily mean Silicon Valley. Or Ivy League entrepreneurs raising millions in venture capital. I'm referring to the new generation of entrepreneurs taking on big, unsolved problems... in every sector of our society ... and turning them on their head.

Many of these startup founders are women and minorities. And they're coming from well beyond the East and West Coasts; a huge number are stepping up throughout the Midwest. They are harnessing digital technology, connectivity, and "distributed everything" to create new business models, new solutions, and new companies designed for the age of disruption.

Which is a point I want to underscore: we ARE living in an age of unending disruption — in which economic, social, health-related shocks — are going to become more common.

Some people call this a VUCA world — volatile, uncertain, complex, and ambiguous. A VUCA world requires VUCA leadership — precisely what a startup mindset enables.

To be clear, there are urgent needs that small business owners need help with right now. Paycheck protection. Access to capital. Streamlined regulations and policies. They're all critical and necessary. But

we must also look beyond the present to a future that is going to be even more demanding than the moment we're living in today. And do so with urgency!

Many people talk about re-skilling – or even UP-skilling -- as a way to prepare for the new economy. Neither is enough! We also need STARTUP-SKILLING -- teaching and empowering small business owners to think and act like startups in times of crisis AND in times of growth.

What does this mean? A startup mindset is different than a conventional leadership mindset. It prizes speed, rapid prototyping, constant iteration, and failing fast to learn fast. It is obsessed with data, what to see in it, and how to exploit it. It's digital, and it thrives on pivots.

STARTUP-SKILLING should become a national priority — led by the SBA and involving corporations, universities and startup ecosystems. The Kaufmann Foundation has called for the creation of an “e-Corps” — a Peace Corps of sorts for digital natives. I love that idea, but let's focus it disproportionately on STARTUP-SKILLING for small businesses. And get it going NOW.

What does STARTUP-SKILLING look like?

First, it's about showing small business owners how they can apply startup thinking, technologies and practices to their own ventures.

For example, at Cintrifuse we hosted a program called *Nitro!* in partnership with JP Morgan Chase. Over ONE weekend, we “startup-skilled” several dozen minority-led businesses — entrepreneurs who are vastly under-served and under-resourced throughout every community. We gave them access to mentors. We showed them how to leverage technology. We brought in Google. We taught them the principles of startup leadership.

This should be a signature SBA program. We need thousands of NITRO! Weekends across America. Every weekend!! Not just to support small business owners, but to turbocharge our support for minority and women-led small businesses in particular! We also need to support other existing efforts like Mortar, the minority-focused startup accelerator you heard last year.

We're also seeing movement in “micro-credentialing” aimed at urban and rural areas. Miami University in Ohio is one such school developing more accessible micro-credentialing targeted at starting a new enterprise and including basic skills in accounting, finance, and marketing. Faculty are deployed well beyond the Ivory Tower to the actual communities in need.

Second, it's about learning from Digital Natives — the kids who've grown up being digital. With sponsorship from our corporate partners, Cintrifuse is sponsoring a “virtual entrepreneurial program” for high school and college students — as we speak, in fact!

We targeted 50 students. We got 100. They're developing startup ideas to help address pressing challenges created by Covid, by Sustainability, and by Social Justice issues. We're challenging them to explore ways in which radically more transparent supply chains — driven by breakthrough innovations in areas like traceability — might be part of a better future.

In other words, they're taking on big unsolved problems. And they're thinking beyond big companies and tech startups to the role small businesses can play in our own back yard.

Third, it's about "mobilizing" and "re-platforming" small business services.

I spent hours before this testimony reviewing dozens of government and SBA digital properties, apps, and more. I've applied for PPP help. I've read web comments. I'm convinced the SBA needs a digital startup infusion.

Why not build an "open innovation" platform to crowd-source solutions? And why not take greater advantage of audience-rich "big tech" – Google, Microsoft, Amazon. Facebook, for example, has more than three billion users including TENS OF MILLIONS of small business owners. This platform is taking heat for reasons I'll refrain from discussing, but why not invite them to co-develop a next generation hub for small business services and startup-skilling. Not a page or an ad campaign, but SBA.com on steroids. What a win-win!

Final observation: I truly believe there's little distinction between a tech startup and a mom and pop small business. They are both based on an idea, a problem that needs to be solved, an entrepreneurial spirit, and the desire to take a shot and carve your own path. Whether we're talking about scalable technology or small-town service, we're talking about the same thing: businesses built on the ingenuity, passion and persistence of people who simply want to make our country better by finding a better way. That's American entrepreneurialism.

We have a "pivot moment" to both support small businesses in crisis AND to accelerate their ability to think and act like the startups that are changing the world.

My bumper-sticker? **Let's STARTUP-SKILL America!!**

If we meet this moment, we will inspire, grow and unleash **the most diverse, innovative and resilient generation of entrepreneurs in American history**. Thank you.



BLUEPRINT for RESTAURANT REVIVAL



July 15, 2020

Helping community cornerstones and their employees
A plan for short-term restaurant survival and long-term industry recovery

More information: RestaurantsAct.com

SHORT-TERM RELIEF TO RESTART THE RESTAURANT INDUSTRY



1. CREATE A RESTAURANT RECOVERY FUND for structured relief to foodservice establishments

Restaurants need a tailored relief measure for immediate liquidity to compensate for lost revenue tied to ongoing closures and restrictions of our operations. Given the evolving reopening "start again, stop again" landscape, the urgency for this recovery solution grows daily.

The National Restaurant Association worked closely with Senators Roger Wicker (R-MS) and Kyrsten Sinema (D-AZ) on legislation to establish a **\$120 billion recovery and revitalization fund** for foodservice or drinking establishments devastated by the coronavirus pandemic.

The **"Real Economic Support that Acknowledges Unique Restaurant Assistance Needed to Survive Act" (RESTAURANTS Act), S.4012**, would provide grants from the Treasury Department to eligible entities that own or operate 20 or fewer establishments (together with any affiliated business), regardless of the type of ownership of the locations and whether those locations do business under the same or multiple names.

Grants are capped at \$10 million per eligible entity and **can be used to cover a variety of costs including payroll, benefits, mortgage, rent, supplies, protective equipment, cleaning materials, and other costs.**

We urge the House of Representatives to endorse the Senate version of the RESTAURANTS Act and for both chambers to pass this vital proposal.



SHORT-TERM RELIEF TO RESTART THE RESTAURANT INDUSTRY



2. Enact a **SECOND INSTALLMENT OF THE PAYCHECK PROTECTION PROGRAM (PPP)**

The National Restaurant Association calls for a second round of application eligibility open to entities that received an initial eight-week loan. These loans would **maintain the current PPP regulatory structure – with particular support for small businesses, minority-owned and women-owned businesses, and small businesses in underserved and rural markets.** For the structure of PPP, a second round must preserve both the SBA's "Affiliation Rules for Paycheck Protection Program" issued April 3 and the improvements of the Paycheck Protection Program Flexibility Act (PPFPA) signed into law on June 5.

The initial PPP provided eight weeks of vital short-term relief, but the challenges facing our industry have not gone away and restaurants have exhausted their PPP loans.

We recommend that a **qualifying revenue loss for PPP funds be tied to a 20% reduction in gross receipts.** This new PPP should help address access to credit issues experienced by too many small businesses, contributing to a staggering 41% drop in Black-owned businesses from February to April 2020.

Finally, we call for a **streamlined forgiveness process for both round one and round two PPP loans, which would preserve time and money for restaurants.**

SHORT-TERM RELIEF TO RESTART THE RESTAURANT INDUSTRY



3. Allow business expenses paid with a forgiven PPP loan TO BE TAX DEDUCTIBLE

Small businesses must be able to deduct eligible expenses paid with a forgiven PPP loan from their federal taxes. The Internal Revenue Service (IRS) currently states that small businesses cannot deduct traditional "ordinary and necessary" business expenses – such as payroll, rent, mortgage payments, and utilities – from their federal tax obligations. Given that Congress designed the PPP to provide essential liquidity for small businesses, this IRS notice must be corrected to reflect legislative intent.

Without this relief, millions of small businesses will face tremendous tax liabilities. For example, a small restaurant group in Indiana used a PPP to retain 54 employees. Due to the IRS decision, they now owe \$182,000 in unexpected taxes just as they attempt to recover. We encourage bipartisan efforts to resolve this timely issue.

SHORT-TERM RELIEF TO RESTART THE RESTAURANT INDUSTRY



4. Create a **LONG-TERM LOAN PROGRAM**

While the PPP provides a critical, short-term bridge for restaurants, additional relief will be needed to help address liquidity issues over a substantially longer time frame. Congress must advance bipartisan solutions to address this issue, helping restaurants rehire, retrain and retain their valued employees. **A long-term loan program should be created that would provide at least six months of operating costs, including payroll, and allow for partial forgiveness** (proportional to a percentage of revenue losses during COVID-19).

The program should have favorable terms such as **deferred payments, low interest rates, a long-term maturity, and the backing of a strong federal guaranty.**

5. Enhance the **EMPLOYEE RETENTION TAX CREDIT (ERTC)**

As regions struggle with COVID-19 outbreaks, the ERTC provides key support for restaurants wanting to keep their employees on payroll during short-term or long-term closure orders. However, **restaurants need expanded access to ERTC for the amount, the duration, and the number of businesses that are eligible.**

Additionally, any legislation should improve **coordination between the ERTC and the PPP so that employers can be eligible for the ERTC after a PPP loan runs out**, ensuring employers access to both programs but with guardrails in place to prevent double-dipping.



SHORT-TERM RELIEF TO RESTART THE RESTAURANT INDUSTRY



6. Bolster funding and improve terms for **ECONOMIC INJURY DISASTER LOANS (EIDLs)**

Restaurants are in dire need of working capital to finance operations, purchase safety and protective equipment, and restore inventory supplies for their customers. While many small businesses have experienced challenges with the EIDL program, restaurants need all options available to manage day-to-day economic headwinds. Congress should **replenish funding for both EIDLs and advance grants, create a new EIDL advance grant for businesses with major revenue reductions due to COVID-19, and offer lower interest rates.**

7. Provide a **TAX CREDIT FOR CUSTOMER AND EMPLOYEE WELLNESS INVESTMENTS**

Restaurants are making significant capital investments in ensuring the safety of our employees and guests, including contactless payment services, modification of physical facilities to accommodate continued social distancing, enhanced sanitization, employee education and training, and the expanded use of personal protective equipment and disposable products. This relief should be designed as a **refundable tax credit to help restaurants shoulder these costs, bolster public confidence, and most importantly, ensure the well-being and safety of employees and customers.**

SHORT-TERM RELIEF TO RESTART THE RESTAURANT INDUSTRY



8. Address **BUSINESS INTERRUPTION CLAIMS** for impacted small businesses

To ensure that the market for pandemic insurance remains available and affordable to businesses in the United States, the Association supports the passage of a federal backstop for pandemic insurance. Before the COVID-19 pandemic, some commercial insurance policies contained exceptions for business interruption or other losses due to a pandemic. But countless policies that did not contain such exceptions have been consistently and improperly denied by insurers, resulting in a growing list of state and federal lawsuits. **The refusal of coverage by insurers has proven devastating for some businesses and their employees. Without federal support, pandemic insurance will be very expensive and difficult to find, putting it out of reach for most businesses.** Its need has been proven by the current COVID-19 crisis.

We urge creation of a federal program to support business losses due to a pandemic.

9. Provide **LIABILITY PROTECTION** for American Businesses

Restaurants are highly regulated at the federal, state, and local level for food safety, hygiene, and sanitation — and additional government rules are being imposed to further protect customers from coronavirus. As we work to reopen our doors and serve local communities, we face unique vulnerabilities from fraudulent or frivolous lawsuits over exposure to COVID-19. **The financial risk of being dragged into court is leading many restaurants to consider shutting down, or diverting resources away from rehiring staff or expanding service options for customers.**

Because the COVID-19 crisis is a global pandemic, and not caused or spread by any one type of business or employee, Congress should enact **temporary and targeted liability protections**. These protections should still **allow for claims based on willful misconduct by bad actors as well as for violations of food, safety and workplace laws**. Liability protections can help provide certainty and predictability for restaurants as they work to regain solid footing.



ENSURE STABILITY OF AMERICA'S FOOD SUPPLY CHAIN FROM FARM TO TABLE



1. Prioritize **ACCESS TO COVID-19 TESTING AND VACCINE DISTRIBUTION** for the food and agriculture supply chain

Our nation's food supply chain is part of the critical infrastructure that has provided Americans with safe, nourishing, and affordable food during this crisis. **To ensure this system can continue to operate safely, we recommend that as more testing becomes available and a vaccine is developed, the Administration prioritize the food and agriculture supply chain, including restaurants, after our nation's health care workers, first responders and high-risk individuals.** Ensuring that adequate testing, timely test results, protective equipment, and vaccines are available to the industry will help us maintain a safe and secure supply chain from farm to table.

We also support initiatives that improve the federal government plans for effective testing of infectious diseases. Our nation is in desperate need of increased government and public health coordination to detect infectious diseases and prevent future outbreaks. As such, we support **modernizing the government's approach to testing and eliminating gaps, which ultimately will help our nation's food supply chain feed American families, especially during times of crisis.**

ENSURE STABILITY OF AMERICA'S FOOD SUPPLY CHAIN FROM FARM TO TABLE



2. Enact **PAYROLL TAX RELIEF FOR ESSENTIAL WORKERS**

Supporting essential workers as they serve the nation during this difficult time is critical to ensure they can continue to fight the war against COVID-19 and keep our food supply chain safe. As such, **tax relief for these essential infrastructure workers in the form of a suspension of federal income and payroll taxes for wages earned by food and agriculture workers, including restaurant workers, is essential.**

Supporting essential workers as they serve the nation during this difficult time will also incentivize their continued commitment to work and keep Americans fed.

HELP RESTAURANTS SUPPORT AT-RISK COMMUNITIES



1. Help restaurants **FEED THEIR COMMUNITIES**

During this crisis, restaurants around the nation have stepped up to feed local communities, especially their vulnerable populations. To continue this important work, we support **providing federal funding to programs accessible by states and localities to partner with restaurants and nonprofits to prepare meals for vulnerable populations including seniors and underprivileged children.** These programs would allow nonprofits, which have been collaborating with restaurants since the beginning of the pandemic, to continue partnering with restaurants to prepare food for these at-risk communities.

2. Increase access to **RESTAURANT MEALS FOR LOW-INCOME AMERICANS**

As the COVID-19 crisis continues to impact our food supply chain through restaurant closures, supply chain shortages and food distribution disruptions, **more access to affordable food is critical for low-income people.** In order to address the issue of increased hunger we encourage Congress to:

1. Create programs that authorize funding to states to contract with restaurants and provide nutrition benefits to low-income participants during the period of the pandemic;
2. Expand the population of people eligible for benefits under the Restaurant Meals Program to ensure that all Supplemental Nutrition Assistance Program (SNAP) participants can access food at restaurants, and make it easier for states and restaurants to participate.

These initiatives would **reduce hunger, particularly among families with children, and lead to economic recovery of local restaurants nationwide.**



Hello,

We have been asked by Chairwoman Velazquez to submit a statement for the record for this week's hearing, "Long-Lasting Solutions for a Small Business Recovery." As a part of the New York Independent Venue Association, we wanted to take this opportunity to tell you about the fate of our company and others like us.

Our venues, The Bell House and Union Hall, both located in Brooklyn, have been shut down due to COVID-19. While many companies have been forced to shut their doors, only a handful of industries have had 100% of their means of revenue cut off. Venues, theaters, and artists have been unusually hurt by this pandemic. While most theaters are non-profits supported by endowments, most live event venues are not so lucky. Yet we play an important part in the cultural makeup of this city.

When PTA groups from local schools including PS 39, 58, 118, and 107 want to hold fundraisers, they don't rent the ballroom at the Marriott, they come to us. When local not-for-profits Fifth Avenue Committee, 826NYC, and Persisticon want to hold fundraisers, we offer them very friendly deals because of the role they play in this community. We host regular events like The Moth, NPR's "Ask Me Another", Secret Science Club, and WNYC's "Science Friday". We host comedians, bands, podcasts, dance parties and all sorts of events in between.

The role that venues like ours play within our community did not materialize overnight. It took years to build up and to develop. It is now at risk of disappearing. We do not have the financial resources to weather this storm much longer. We desperately need financial and legislative support.

Thank you for your consideration.

Best,

--

Jim Carden, CEO
City Farm Corp
City Farm Presents
718-369-3310, ext. 12
www.cityfarmny.com



FRANCHISING®
 Building local businesses,
 one opportunity at a time.

June 18, 2020

The Honorable Roger Wicker
 555 Dirksen Senate Office Building
 Washington, DC 20510

The Honorable Kyrsten Sinema
 317 Hart Senate Office Building
 Washington, DC 20510

Dear Senators Wicker and Sinema:

On behalf of the International Franchise Association (IFA), the world's oldest and largest organization representing franchising worldwide, I write to express our views on the RESTAURANTS Act. Prior to COVID-19, America had 733,000 franchise establishments that employed more than 7.6 million Americans. These businesses operate in hundreds of business lines, including food and beverage, automotive, education, fitness, residential services, senior health services, salons, and hotels. IFA has long appreciated your leadership on bipartisan, commonsense legislation, and we look forward to working with you to ensure our members have access to future relief programs to ensure their long-term viability.

With respect to the RESTAURANTS Act, first and foremost, we want to thank you for ensuring franchise owners are eligible for the program. According to industry research firm, FRANData, 75% of all franchise owners have fewer than 20 employees. Franchising is also more diverse than non-franchise businesses: nearly 30% of franchises are minority-owned, compared to 18% of non-franchised businesses, which is particularly important given the challenges minority business owners have had accessing PPP loans. We encourage the U.S. House to follow your leadership and eliminate franchise discrimination from H.R. 7197, which discriminates against franchise owners by disallowing a single-unit franchise owner of a sandwich shop one side of the street from accessing relief while the non-franchised sandwich shop on the other side of the street is eligible.

IFA supports providing relief to America's restaurant industry, which has been devastated by the economic impact of forced shutdowns and new mandates related to social distancing. We also need the kind of relief contemplated in this bold proposal for other struggling sectors of the economy, and we respectfully urge you to expand this important bipartisan work to deliver a broad-based economic recovery program. According to IFA data, more than 68 percent of our members have seen revenue declines greater than 25 percent since February, including hotels, salons, gyms, health centers, day care centers, residential commercial services and many others. Much like the coronavirus itself impacts the entire society, the economic impact of COVID-19 is being felt by the entire economy and it is our strong belief that future relief efforts, much like the CARES Act, should be broad-based, rather than industry-specific, and based upon need. Among franchise businesses, 68 percent of IFA members report a revenue loss of greater than 25 percent since February.

For these reasons, we urge you to build upon the structure of the RESTAURANTS Act to ensure relief is more broad-based to provide meaningful relief to any impacted business and their employees. Specifically, we support enhancements to the Employee Retention Tax Credit (H.R. 6776, the *Jumpstarting Our Businesses' Success Credit (JOBS Credit) Act of 2020*), the *Reviving the Economy Sustainably Towards a Recovery in Twenty-twenty (RESTART) Act*, or legislation to help local businesses rebuild their workforce quickly by turning the unemployment benefits into a back-to-work bonus that will provide a bump to workers and help accelerate our economic recovery when it is safe to reopen.



On behalf of the franchising sector, we thank you for your strong, bipartisan leadership to address the liquidity issues faced by small businesses across America. We stand ready to continue to work with you during this critical moment, and thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Matt Haller", is positioned below the word "Sincerely,".

Matt Haller
Senior Vice President of Government Relations & Public Affairs
International Franchise Association

cc: U.S. House of Representatives

Written Testimony Submitted to the House Committee on Small Business
By Jaime A. Guzman-Fournier
Managing Partner, RockCoast Capital, LLC and
Former Head of the Office of Investment and Innovation (SBIC Program), 2004-2007
For the Hearing on July 15, 2020 entitled:
"Long-Lasting Solutions for a Small Business Recovery"

Established in 1958, the Small Business Investment Company (SBIC) Program is one of the best examples that the Federal government has to offer (across the entire government) of a successful public-private partnership. As with any older, 60+ year old institution, or in this case government-administered program, the SBIC Program has gone through many good times and experiences and has also experienced some setbacks and important learning experiences along the way. As an example, I was leading the SBIC Program during one of its most difficult setbacks in history (2004-2005), the elimination of the Participating Securities SBIC Program, which was the larger of the two main SBIC programs at the time. So I present this written testimony with a great deal of sensitivity and understanding of the importance of taking precautions and doing all the necessary research (especially technical research) when drafting any new SBIC programs for the public good.

By way of brief historical background and context, since the early 1970s, there have been at least six (6) "pilot" SBIC programs, in my personal count, that have been established with a higher public purpose to assist in accessing venture and growth equity and debt capital for small businesses. And unfortunately, with the exception of one, all of these "pilot" SBIC programs have been eliminated for some reason(s) such as lack of demand, lack of success or, in some cases, a combination of the prior two and/or other reasons alongside political motivations. In my personal count, the six (6) "pilot" SBIC programs have been:

1970s through 1990s:

1. ***Specialized SBIC (SSBIC) Program (originally called Minority Enterprise SBIC Program -- MESBIC)***

1990s and 2000s:

2. ***Participating Security (PS) SBIC Program***
3. ***New Markets Venture Capital (NMVC) Program***

2000s to the Present:

4. ***Rural Business Investment Company (RBIC) Program***

2010s:

5. ***Early Stage SBIC Program***
6. ***Impact SBIC Program***

*Besides RBIC above that still remains, the seventh and oldest of the SBIC programs is the Debenture SBIC Program which in many ways started it all for SBIC back in 1958, is currently the "main" SBIC Program, and is considered a successful and stable Federal government program.

And still, after all of this rich history of different "pilot" SBIC programs and a very successful "main" SBIC Program (Debenture), some important SBIC program issues remain unresolved with two issues in my view being the most prominent:

- 1) lack of diversity in SBIC management teams (both ethnic and gender diversity) and
 2) lack of program penetration into smaller businesses, defined only for the purposes of this written testimony as businesses with \$2 million or less in EBITDA and with approximately \$30 million or less in Revenues.

I believe that, for the SBIC Program to be an even more complete and successful public-private partnership (in 2020 and beyond) both of these remaining issues for the Program need to be addressed firmly and directly. And Congress has a great opportunity to do so as part of its *Long-Lasting Solutions for a Small Business Recovery* agenda, post the current COVID-19 crisis and economic recession.

Issue #1, and based on the present administrative structure of the SBA's Office of Investment and Innovation, which administers the SBIC Program, would need to be addressed by way of careful but aggressive and focused business development and licensing strategies (efforts) that would be brought about as part of a new SBIC program, which would be fully separate but highly complementary (in terms of small businesses being served) to the current Debenture SBIC Program. It is important to note and recognize that issue #1 is a very complex topic, especially during an implementation phase, and the Federal government (both Congress and the Administration/SBA) would be well served to ask for professional guidance and advice on how to best succeed at implementing this topic which is so critical for the future of the entire SBIC Program.

Also on issue #1, I am a proponent that once this topic begins to be resolved more permanently by the SBIC Program (I believe that it will take at least 5 to 10 years of a strong, decisive effort in the part of the new SBIC Program implementers), the number of small businesses that are considered "underserved" by all definitions of the Federal government will see a significant, steady, and long-overdue increase in SBIC Program support both in terms of number of "underserved" small businesses being served and dollars/capital going into these "underserved" small businesses. After all, SBIC at its core is a "people's business" where relationships (business and personal) are the most critical, and I firmly believe that ethnic minority and women SBIC managers will find their way within "underserved" markets very naturally. I also firmly believe that by having a greater number of ethnic minority and women managers in the SBIC Program, the rest of the managers in the Program will not only co-invest and/or support some deals within "underserved" markets, but in time will penetrate those "underserved" markets more efficiently as well -- either on their own or with the help and support of other SBIC managers. I know that SBIC has always been and trust will continue to be a highly collaborative community.

On issue #2, the lack of historical program penetration into smaller businesses, I believe that this will be an easier challenge for a new SBIC program to address and overcome. The legislation and regulations for the new SBIC program need to be very clear about the target market within the small business sector of our economy. Going back to the six (6) "pilot" SBIC Programs enumerated in page 1 above, it will be very critical for Congress and the Administration (SBA in particular) to study the pros, cons, and overall results of the "Terms" of all of the government leverage ("instruments") used under each of these "pilot" programs to obtain a clear set of experiences and best practices for establishing the "Terms" of the leverage and any other financing "instrument" to be used under a new SBIC program.

One important area that may be more challenging within this issue #2 is that because the target market of the new SBIC program will be smaller businesses, there will be a significant need for more equity type capital as part of this new program, as opposed to credit/debt type capital only. Smaller businesses have less capacity to repay interest from credit/debt type securities back to the SBICs (who in turn would owe interest payments back to the Federal government), so there will be many times when equity

investments (fully or partially) into these smaller businesses targeted by this new SBIC program will be more appropriate. A significant level of attention should be paid and guidance/advice obtained in this area as well to make sure that this new SBIC program is successful at finding the most applicable "instrument(s)" for financing smaller businesses, under a long-term approach.

I can speak for myself, and I know many others with significant personal/professional experience and lessons learned in the SBIC Program (and the SBIC industry in general), when I say that we stand ready and committed to supporting Congress and the Administration/SBA to seeing this successful public-private partnership called SBIC Program playing a leading role amongst the venture capital and private equity industries at growing diversity by way of its management teams while also reaching smaller businesses in our economy that need growth capital (debt and equity).

Thank you for your consideration of this written testimony.

**Written Testimony Submitted to the House Small Business Committee
By Brian Lueger, Principal
Konza Valley Capital, Inc.
For a Hearing on September 26, 2019**

Konza Valley Capital, Inc. (KVC) has been part of the SBIC program for more than 42 years (since 1977). During that time, we have invested in small businesses located throughout the country. Almost every individual in the country has very likely used or seen products made by companies that KVC has helped and continues to help grow, if they have ever:

- Eaten a Pizza Hut pan pizza (produced the pans the pizzas were cooked in),
- Walked under a clear archway where you could see fish swimming above/around you,
- Seen the large backlit apple above an Apple store, or
- Watched news networks on election night point out specific county results on a large touchscreen (built metal components included in the touchscreen).

KVC is submitting this testimony to (#1) let you know that the SBIC program is a success story, (#2) two different ways that SBIC funds are structured, (#3) identify an issue that is the result of this structuring difference, and (#4) provide a simple solution to help fix this issue.

The SBIC Program Works

The mission statement of the SBIC is “stimulating and supplementing the flow of private equity capital and long-term loan funds which small-business concerns need for the sound financing, growth, expansion and modernization their business operations.” A recent Library of Congress Report on SBIC Financing of Small Businesses (July 2017), helped show that the SBIC program was meeting its mission statement. The report’s authors drew from relevant business data from the SBA and other sources to conclude that SBICs have filled significant gaps in the market and that SBIC investments:

- Support companies that are less likely to be considered by private equity investors.
- Fund different sectors than the rest of the private equity universe.
- Spread capital in a more dispersed manner across the country than traditional investors.

Capital is the lifeline of businesses and especially small businesses that are looking to grow. KVCi is proud to have helped provide that lifeline over its 42 years in existence and as part of the SBIC program, which can be seen in terms of revenue and employee growth in just a few select locations where investments have been made (revenue in \$ millions):

	# of Companies	Starting Revenues	Ending or Current Revenues	%age Change	Starting # Employees	Ending or Current Employees	%age Change
Kansas City, KS	7	\$ 135.7	\$ 235.6	74%	550	809	47%
Denver, CO	1	149.2	2,986.7	1,902%	17	433	2,447%
Chicago, IL	1	9.0	14.3	58%	245	350	47%
Dubuque, IA	1	6.9	9.3	33%	22	50	127%
Alvarado, TX	1	11.6	15.4	32%	49	57	16%
Minneapolis, MN	1	11.6	14.0	21%	31	28	(10%)
Cincinnati, OH	1	9.6	11.8	23%	55	63	15%
Tulsa, OK	1	8.9	8.9	0%	46	49	7%
Knoxville, TN	1	22.8	32.1	41%	62	132	113%

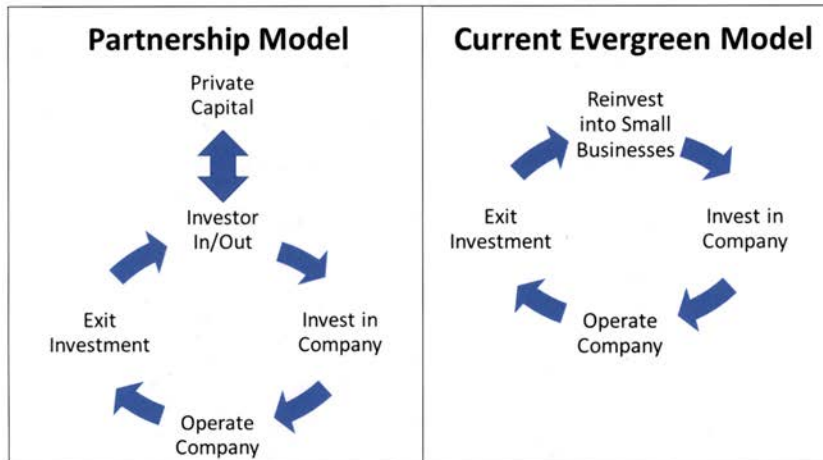
Over its 42 years of existence, KVCi has made investments in half the country (25 states) seen below.



Both the Library of Congress report and KVCi's results show that the SBIC program works and meets its stated mission statement. The best part of the program is that while Congress guarantees the debentures in case of default, ***the cost to the U.S. taxpayer has been \$0 over the life of the program.*** The SBIC program is a self-sustaining program that has resulted in an effective public/private partnership since its inception in 1958.

SBIC Fund Structure

As a SBIC with an evergreen license (a corporation), KVCJ is structured slightly different than the majority of other SBICs (partnerships) that are in existence today. When the SBIC program started, most funds were licensed under the evergreen model. Today funds are almost exclusively, if not entirely, licensed under the partnership model. The difference in structures relates to the initial formation of each fund. Both structures effectively provide capital to small businesses. The primary difference between the evergreen and partnership models is what happens after a fund exits an investment in a portfolio company. This difference can be seen in the below graphic:



As can be seen above, the partnership model typically results in gains from the exit of investments being immediately returned to investors in the fund and then potentially invested later into a new fund to make new investments. Under the evergreen model that KVCJ operates under, gains from the exit of investments are often reinvested into new companies. While the two models both result in investments, the way reinvestment occurs is slightly different, which impacts the amount of SBA leverage an SBIC can obtain under each model.

Over the life of the SBIC program, funds have navigated towards the partnership model in order to increase liquidity opportunities to outside investors and improve return to the managers of the fund. The downside to this model is that partnership funds have a limited lifespan, which can dictate the timeline that portfolio investments will need to be exited under. KVCJ believes that the evergreen model allows the fund more patience in determining when to exit an investment as there is no timeline for exit, which can help increase return metrics. The downside to the evergreen fund is fewer liquidity opportunities for outside investors, especially if funds are continually reinvested into new opportunities. While the initial formation of both types of funds are different, both types of funds have been shown to be successful throughout the life of the SBIC program.

Issue Resulting from Structure Difference

As with any program (even successful programs such as the SBIC program), there are always enhancements that can be made to continue to modernize and improve the program. There are only three ways to increase the amount invested into companies in an SBIC portfolio:

- Raise capital,
- Borrow funds (primarily from the SBA debentures), and
- Reinvest gains/income from investments made.

Under current regulations, SBIC funds can receive 2x to 3x leverage of regulatory capital. Regulatory capital is primarily calculated based on capital initially raised. However, funds from gains reinvested into new investments (under the evergreen model) are not included in regulatory capital. This results in less leverage available to funds operating under the evergreen model. As can be seen below, the evergreen model receives approximately \$46.0 million less in available leverage than the partnership model (the below example utilizes KVCI's current investment, SBA leverage, and regulatory capital balances.)

Partnership Model			Current Evergreen Model		
<small>(in millions)</small>			<small>(in millions)</small>		
Cost of investments	\$50.0	Available	Cost of investments	\$50.0	
Leverage	<u>(17.0)</u>	<u>Leverage</u>	Leverage	<u>(17.0)</u>	
Private capital	33.0 x 2 =	66.0	Private capital	33.0	
			Regulatory capital	<u>(10.0) x 2 =</u>	20.0
			Reinvested capital	23.0 x 0 =	-
			Available Leverage		20.0

This issue can further be seen by the fact that despite KVCI almost *doubling* the amount invested (from 2010 to current) and *lowering* the amount of SBA debentures outstanding (\$1.5 million), SBA borrowing capacity has *declined* significantly by \$7.6 million (see below for actual values.)

	2010	6/30/19
Investments made by KVCI	\$25.6 million	\$50.3 million
SBA debentures outstanding	18.6 million	17.1 million
Private capital	7.0 million	33.2 million
Outside investor funds	7.0 million	7.9 million
Reinvested portfolio gains		25.3 million
Private capital	7.0 million	33.2 million
SBA debenture borrowing capacity	27.8 million	20.2 million

KVCI believes that an increase in investment with a corresponding decrease in outstanding debentures owed to the SBA should result in at least maintaining, if not increasing borrowing capacity. Unfortunately, that is not the case and borrowing capacity has declined based on the way that the debenture borrowing capacity is currently calculated.

Simple Solution

The SBIC program works, but unfortunately the math does not always make sense. KVCI is requesting an improvement to the program through a change in the regulations that would allow for an increase to the amount of leverage available for gains reinvested back into the portfolio. Below is the change KVCI is proposing to the definition of leverageable capital included in the regulations.

Leverageable Capital means the sum of:

- (1) Regulatory Capital, excluding unfunded commitments, and
- (2) The greater of \$0 or 50% times the total of the Financed investments made by the Licensee less:
 - (a) Leverage provided by the SBA, and
 - (b) Regulatory Capital, excluding unfunded commitments.

The impact of the proposed change can be seen in the below graphic.

Current Available Leverage				Proposed Available Leverage			
<i>(in millions)</i>				<i>(in millions)</i>			
Cost of investments	\$50.0			Cost of investments	\$50.0		
Leverage	<u>(17.0)</u>			Leverage	<u>(17.0)</u>		
Private capital	33.0			Private capital	33.0		
Regulatory capital	<u>(10.0) x 2 =</u>	20.0		Regulatory capital	<u>(10.0) x 2 =</u>	20.0	
Reinvested capital	23.0 x 0 =	-		Reinvested capital	23.0 x 1 =	23.0	
Available Leverage		20.0		Available Leverage		43.0	

As can be seen above, this change results in an increase to \$43.0 million in available leverage for an evergreen fund, which is still much less than the \$66.0 million of leverage available to a partnership fund. Under the evergreen model, the only way to make new investments without obtaining additional funding from outside investors is to have a successful investment that generates a *gain*. If a fund is unsuccessful and experiences losses, the fund would not have the ability to reinvest funds into a new investment and thereby not increase its borrowing capacity. Additionally, KVCI is not proposing a full 2x leverage on reinvested capital. The change to the definition of leverageable capital results in 1x leverage available to reinvested capital. While the SBA does not have the ability to "relicense" evergreen funds, the SBA does have the ability to deny additional leverage requests if the fund is not performing (even if the amount of available leverage is more than what is outstanding.)

While this change will primarily benefit evergreen funds such as KVCI, funds under both the partnership and evergreen models can benefit from this change. Both partnership and evergreen funds can make the decision to reinvest gains into new investments. This is likely to occur less frequently in the partnership model due to current partnership agreements; however, in times when successful funds are experiencing delays or a difficult time in the licensing process, the fund would have the ability to reinvest gains and qualify for additional leverage in the same manner that evergreen funds would be able to. While that may be difficult, it does provide an additional tool in the toolbox for partnership funds.

Conclusion

In summary, *the SBIC program is a successful program*, but KVCJ believes there is an enhancement that can be made to improve the program. By making this enhancement, KVCJ can continue to help fulfill the mission of the SBIC program and make investments to help grow and sustain small businesses.

Thank you for taking time to consider KVCJ's proposed change.

We have been asked by Chairwoman Velazquez to submit a statement for the record for this week's hearing, "Long-Lasting Solutions for a Small Business Recovery." As an important member of this committee we wanted to make sure we shared some insight about our members unique issues especially our members in your district. Independent venues are the backbone of the creative industry and unlike many businesses, even restaurants, are facing much more dire predicaments as they have to remain completely shuttered indefinitely as we work to keep our country safe.

Le Poisson Rouge (LPR) is a fiercely independent venue founded by musicians on the site of the historic Village Gate in Congressional District 10. LPR would have been celebrating its 12th anniversary this past June 2020. Between the Village Gate and LPR, this historic site has been the launching point for artists like Nina Simone, Aretha Franklin (first NYC performance), Lorde, Florence & The Machine, and so many more. As LPR we passionately champion presenting classical music in a modern setting in a way that no one has before alongside so many musical genres. We have hosted the likes of Yo Yo Ma, Philip Glass, Steve Reich, Beck, Thom Yorke, Yoko Ono on our stage. In the 1960's The Village Gate was the epicenter of the 60's counterculture movement in downtown NYC with regulars such as Patti Smith, Nina Simone, Miles Davis, Stevie Wonder, Grateful Dead, and so many more. All this history is at risk of collapsing if we cannot get support and soon from our local and federal governments that are specific to our industry.

Due to COVID - 19 we have been shut down since March 13th. First to shutter and likely the last to be allowed to open. Since the shutdown, our revenues have plummeted by 100% compared to the same time last year. That trend will continue as long as this shutdown lasts. We have lost over \$2 million dollars in revenue compared to the same period last year. All while our operational expenses still remain. Since March 13th we still owe nearly \$500k in rent, payroll, insurance, etc. We are mandated to be closed but the bills are still coming in with zero income to pay them. The artists and performers we present have lost roughly \$500K in income from performing shows at LPR, and our staff have lost nearly \$500K in wages. Many of which are residents of our district.

We have applied for both the PPP and the EIDL loans offered by the SBA. We have also applied for NYC's Business Continuity Loan. None of these loans are helpful for businesses like ours that are 100% shut down due to Covid. Communication with these agencies to know the status of our applications or the likeliness of approval has been near impossible. The PPP loan is not enough for us. I can't imagine it's enough for any independent venue in our industry. It's probably more helpful for businesses in industries that are still operational on some level and need a little something extra to help retain their staff during a slowdown and avoid layoffs. For a business in our industry that was among the very first to be closed and may very well be among the last to reopen, it's not enough. Without the ability to put on shows, this isn't a slowdown for us. This is a complete halt to our ability to generate any revenue. For a venue like ours, especially in NYC where everything is so expensive, the operating costs are extremely high, even when we're not operational. Even when / if we are allowed to operate at a reduced capacity, we will not have income for months. Our industry is built on planning tours 3-5 months before they hit our stage.

Every day in conversations, on the news, and especially in our social media feeds we see wildly hyperbolic messaging. But the reality of this one is that if concerts don't resume in 2020, 90% of independent venues across America will most likely not open again. Ever. Of course, this is terrible for music lovers but this affects so many more angles. Independent music venues like LPR are economic

multipliers, community builders, and beloved institutions. A Chicago study estimated that \$1 spent at a small venue resulted in \$12 of economic activities for neighboring restaurants, hotels and retail shops, and we believe that level of financial contribution is consistent in cities and towns across America. What would our communities look like without them? We must ensure their survival. A New York without LPR and for that matter many of its peer institutions would be far less for a lack of this diversity and experimentation, and for this integration of art and nightlife. LPR was founded at a time where it seemed art institutions needed more spontaneity at the same time as nightlife needed more substance. The immediacy and lack of pretension inherent in the club space is critical - as not just a place to gather or party but to commune, to "take in" together that which inspires us - be it live music, fine art in the gallery, spoken word or theater. This is a vital part of being human.

Widespread closure of the smaller, more vulnerable independent institutions could mean a more homogenous, and less interesting cultural landscape and lifestyle landscape in general. I think we all have a newfound appreciation for our fundamental need to be together, out in the world. If as individuals and a society we were becoming too dependent on the solitary digital experience we have now had our wake-up call. We as presenters will be counted on to deliver once again, we just need the support for our local community and small businesses so we can thrive when the time comes.

Thank you for your extremely hard work for our State and our Country in these absolutely uncharted times. Hoping we can rely on your efforts to get us to the other side.

Best,
Brett Tabisel
Senior Music Director / Partner

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National Association of Federally-Insured Credit Unions

July 14, 2020

The Honorable Nydia Velázquez
Chairwoman
Committee on Small Business
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Steve Chabot
Ranking Member
Committee on Small Business
U.S. House of Representatives
Washington, D.C. 20515

Re: Tomorrow's hearing, "Long-Lasting Solutions for a Small Business Recovery"

Dear Chairwoman Velázquez and Ranking Member Chabot:

I write to you today on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) in regard to tomorrow's hearing titled, "Long-Lasting Solutions for a Small Business Recovery." As you are aware, credit unions are working on the front lines with their members during these times of economic uncertainty. NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve 120 million consumers with personal and small business financial service products.

Credit unions are keenly aware of the hardships their members are facing due to the COVID-19 pandemic and are working around the clock to proactively assist them. Nearly 1,000 credit unions have participated in the Small Business Administration's (SBA) Paycheck Protection Program (PPP) and have helped countless small businesses survive the lockdowns required by the current pandemic. Many of these credit unions were new to offering SBA products. The PPP has been very successful and an important tool that credit unions have used to help their small business members. Additionally, many small businesses have turned to credit unions for PPP loans when other lenders would not work with them, leading to an influx of new small business members at credit unions.

NAFCU member credit unions report making PPP loans in amounts much lower than the national average of both rounds of funding. As such, NAFCU is supportive of automatic loan forgiveness for PPP loans under a \$150,000 threshold. Loans under \$150,000 account for 85 percent of PPP recipients but only account for 26 percent of the funds disbursed by the SBA. This level would cover the majority of credit union loans, the vast majority of which have been to smaller businesses that could most benefit from this automatic forgiveness. A smaller PPP loan is less likely to pose a high risk of fraud so the benefits to all small businesses and lenders of providing this automatic or simplified forgiveness significantly outweigh the potential risks. Moreover, automatic forgiveness frees up human capital at a time when credit unions and small businesses may be short-staffed due to ramifications of COVID-19. We were pleased that a bipartisan group of Senate Banking Committee members introduced S. 4117, the *Paycheck Protection Small Business Forgiveness Act*, which would forgive PPP loans under \$150,000 if the borrower submits a one-page attestation form to the lender. We urge the House to consider similar legislation to help the smallest businesses and their employees during these trying times.

The Honorable Nydia Velázquez, The Honorable Steve Chabot

July 14, 2020

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As the Committee examines the long-term recovery of small businesses, we urge you to consider changes to other SBA programs as well. As you are aware, credit unions face arbitrary restrictions in the *Federal Credit Union Act* on the ability to offer member business loans (MBLs). However, the guaranteed portion of government-backed SBA loans, such as those from the 7(a) and 504 programs, do not count against the cap. Increasing the maximum loan guaranty percentage of these SBA programs and taking steps to mitigate the fees involved with them will help the hundreds of credit unions that are now SBA lenders thanks to the PPP continue to serve their small business members with SBA products after the PPP expires.

Finally, as we have communicated to Congress previously, one way to help small businesses recover from this pandemic would be to amend the *Federal Credit Union Act* to provide credit unions greater relief and flexibility from the MBL cap. In 1998, Congress codified the definition of an MBL and limited a credit union's member business lending to the lesser of either 1.75 times the net worth of a well-capitalized credit union or 12.25 percent of total assets. As the country faces recovery from the impact of COVID-19 on the economy, many credit unions have the ability to go beyond SBA programs to help small businesses create jobs and stimulate the economy. However, due to the outdated and arbitrary MBL cap, that ability is hampered. Providing relief from the cap would help provide economic stimulus and create jobs without using taxpayer funds.

NAFCU supports bipartisan legislation pending in the House (H.R. 6789) and Senate (S. 3676), the *Access to Credit for Small Businesses Impacted by the COVID-19 Crisis Act of 2020*, which would provide temporary relief from the MBL cap for loans to help small businesses recover from the COVID-19 crisis. While this legislation is under House Financial Services Committee jurisdiction, we urge you to support the inclusion of this legislation in the next coronavirus relief package as you look for ways to help small businesses recover.

We thank you for the opportunity to share our thoughts and look forward to continuing to work with you on pandemic relief and economic recovery. Should you have any questions or require any additional information, please contact me or Janelle Relfe, NAFCU's Associate Director of Legislative Affairs, at 703-842-2263 or jrelfe@nafcuh.org.

Sincerely,



Brad Thaler
Vice President of Legislative Affairs

cc: Members of the House Committee on Small Business



TUESDAY, JULY 21st, 2020

Statement For The Record

National Independent Venue Association (NIVA)

House Small Business Committee
Long-Lasting Solutions for a Small Business Recovery
July 15, 2020



The Honorable Nydia Velazquez
Chairwoman
House Small Business Committee
2361 RayburnHouse Office Building
Washington, DC 20115

The Honorable Steve Chabot
Ranking Member
House Small Business Committee
2361 RayburnHouse Office Building
Washington, DC 20115

Formed in response to the COVID-19 shutdown, the 2,000 members of the National Independent Venue Association (NIVA) represent independent venues and promoters of all sizes across the nation with a critical mission. While we vary in size and location—from small grassroots spaces for emerging artists to large historic theatres—we are all in the same boat: closed indefinitely with no revenue for the foreseeable future while obligations such as rent, taxes, insurance, utilities, and essential staff continue as normal with zero revenue to pay them.

"Specifically for me, the Mercury Lounge (est. 1994) and the Bowery Ballroom (est. 1998) are at risk. Rents in NYC are like that of no other in the country. We have been fortunate to have landlords who have worked with us to a degree, but they are suffering as much as any, and it is unknown how much longer they will be able to continue to help." —Michael Swier, Owner, Mercury Lounge and Bowery Ballroom, NYC.

While many businesses have been forced to close indefinitely as we work to keep our country safe, our industry has had 100% of our means of revenue cut off. Our industry may not be traditional, but we still pay taxes, generate revenue, create hundreds of thousands of jobs in our cities, and enable artists to earn a living. With zero revenue and a significant overhead, continuing much longer without assistance will be untenable. For Erick Verela, who owns the 4,000 sq. ft. venue The Paper Box in Brooklyn, this amounts to twenty-two thousand to twenty-five thousand dollars a month simply to carry the space during the shutdown. For Town Stages in lower Manhattan, monthly overhead is closer to \$150k.

Independent venues are the backbone of the creative industry and contribute substantially to the economy by bringing entertainment to cities across the country. Our venues are small businesses, beloved institutions, community-builders, and economic multipliers. A Chicago study estimated that for



every \$1.00 spent at a small music venue, \$12.00 of economic activity is generated. We believe that level of financial contribution to be consistent in cities and towns across America. Without assistance, we will no longer be able to generate economic gains for the businesses around us and the tax base of our towns and cities. What would our communities look like without these businesses?

With most venues unable to open, the vast majority of our employees have been furloughed with no clear picture of when they can return to work. Many of them will be facing a serious financial crisis when the FPUC and PUA benefits expire at the end of the month. Working artists, stage crews, sound engineers, tour managers, tour bus drivers, and countless others will be in the same dire predicament: forced to abandon a career they have spent years building in order to pay rent, while putting themselves and others at risk. Our employees are looking to us for hope, guidance, and an indication of when they may potentially return to work safely in their chosen field.

For the majority of our independent venues, reopening at reduced capacity will only lead to further economic hardship. Rents, utilities, insurance, taxes, and artist pay are fixed costs and do not operate on a sliding scale contingent on permitted capacity. The already razor thin margins would quickly become losses, and would cause a quicker permanent closure. Venues exist within a broader national ecosystem, and it will likely take months before this ecosystem can fully rebound. When *Lorde* or *Florence and the Machine* take the stage at *Le Poisson Rouge* in New York City, it's the result of five or more months of tour planning. Due to the national routing of most tours, our industry will not recover until the entire country is open at 100% and the general public feels it is safe to gather at large events. *"There is no telling when our patrons will feel safe to gather again, and regardless, our industry will not turn on with a flip of a switch. We will also need to overhaul our venues to keep our spaces safe and clean."*—Laura Regan, Owner & Operator of The Footlight, Ridgewood, NY.

When a reopening eventually does happen, it will happen cautiously, and the revenue we count on for events and gatherings will be cut by 50% or more. Only then can we begin to factor in reopening costs such as additional cleaning and PPE for our staff.

While the PPP and EIDL loans were helpful in the short term, neither program considered the specific challenges we, as independent venues, are facing in the long term. Many of the existing loans are not helpful for businesses like ours that are 100% shut down with no income due to COVID-19. Our members rely on programming to bring in patrons—and our revenues have plummeted.



"Our business just opened this past New Year's Eve. We had solid momentum and tons of support before COVID-19 hit, and then we had to close in early March. We are now questioning our survival. It's devastating to imagine closing after all of the effort that went into creating such a special space that is so unique to the neighborhood."—Amanda Haase, TV Eye, Ridgewood, NY

Profit margins are low, and overhead is higher than most realize. We are in this business because we care. We are families, artists, and entrepreneurs who are passionate about the industry and protective of our venues. We are not in the business of asking for handouts, and we have all without exception worked incredibly hard to make this our livelihood.

We are conscious and respectful of the fact that our country is currently undergoing significant challenges in addition to a global pandemic. We consider our venues and events very much a part of our communities—providing spaces where all people can gather, share art and support each other, and serving as crucial launching pads for artists. We want to provide our community with live music to support healing, now more than ever. *"When PTA groups from local schools want to hold fundraisers, they don't rent the ballroom at the Marriott, they come to us."* —Jim Carden, CEO of City Farm Corp (The Bell House and Union Hall), Brooklyn, NYC.

There is a newfound appreciation for our fundamental need to be together, out in the world. As the gathering spaces for our communities, we will be counted on to deliver once again. But we need support in order to do so. As you develop new strategies to provide additional relief to struggling small businesses, we only ask that you do not leave us behind.

The role that independent venues and promoters play within their communities did not materialize overnight. It took decades to build and develop and it is now at risk of disappearing entirely. We do not have the financial resources to weather this storm much longer. We desperately need federal support.

Every day we are presented with wildly hyperbolic messaging, but the reality of this is that if concerts don't resume in 2020, 90% of independent venues across America will be forced to close permanently. It is heartbreaking to acknowledge that the rich history of our venues is at risk of collapsing forever. We need support from our federal government that is tailored to the unique challenges of our industry, and we need it soon. Please understand that a financial bridge to viability is essential to our survival.



Thank you for all of your work and for this opportunity. We look forward to working with the committee in the future.

Hello Mr. Martinez,

Ahead of this week's hearing on "Long-Lasting Solutions for a Small Business Recovery," Chairwoman Valasquez has asked that members of NIVA submit, for the record, a statement providing insight to the challenges we, as independent music/performance venue owners, are facing under the Covid-19 pandemic mandatory shut-down of NYC. Since a vast majority of the NYC creative culture, as well as the independent venues which support its artist, have migrated to District 7 (Brooklyn/Queens neighborhoods), we welcome the opportunity to share our industry's unique issues with the Chairwoman.

My name is Erick Verela. As a minority business owner - I own and run a performance venue (The Paper Box) in the East Williamsburg/Bushwick section of Brooklyn. We have been in operation for 9 years, but have been closed since the very early stages of the Coronavirus outbreak. Typically, the venue plays host to local and touring artists as well as the community at large- as an event space. Unlike other establishments in the entertainment industry, ie restaurants, bars, movie theatres etc., live venues such as The Paper Box, cannot simply reopen its doors and resume business as usual. The reason being; artist's, promoters and planned events -in general- are scheduled well in advance. In light of which, our specific industry has a 3-4 month lag in filling our respective calendars. Again, unlike restaurants and bars.

While the PPP and EIDL loans were helpful in the short term, neither program considered the specific challenges we, as independent venues, are facing in the long term. As it stands, such establishments will be the last to be allowed to reopen and will most certainly be the most scrutinized when allowed to do so. In the spirit of keeping the city and country safe, we understand the challenges local and state governments are facing and want to do our part to mitigate the spread of the virus. However, it is reasonable to concur that most of these establishments, including The Paper Box, can't possibly survive 7-8 months of zero revenue.

As it stands, the profit margins are low and the cost to legally and safely operate a live performance venue is higher than most realize. Items such as rent, insurance, utilities, licensing fees, etc, make up a generous portion of operating expenses, and thus roll around on a monthly basis, irrespective of revenue generation, or lack there-of. For venues, the size of The Paper Box (4000 sq ft), this amounts to approximately \$22-25K monthly to simply carry the space during the shut-down. Nonetheless, we are passionate about the industry and, as artists and entrepreneurs, we have made this our livelihood.

For those venues, which were able to defer items such as rent and insurance, the bill will become due in the very near future. However, to date there is still much uncertainty as to when and under what conditions we will be able to resume business- which will most likely be "not as usual." Unlike corporately backed establishments, we are limited in our ability to weather such an unprecedented and unforeseeable disaster and maintain operations with no foreseeable end. It is with this in mind we are rallying for longer-term solutions/assistance in sustaining our industry.

We wish to thank Chairwoman Valasquez for hearing our voices and sharing in our predicament and concerns. And of course, thank you as well.

Best Regards,

Erick Verela
The Paper Box NYC

Paula Calimafde, Esq.
 President and General Counsel
 4800 Hampden Lane
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 Bethesda, MD 20814



**Small Business Legislative Council Statement for the Record
 U.S. House of Representatives Committee on Small Business
 “Long-Lasting Solutions for a Small Business Recovery” Hearing**

July 15, 2020

Please accept the foregoing statement of the Small Business Legislative Council (SBLC) for the record in response to the U.S. House of Representatives Committee on Small Business July 15, 2020 hearing on “Long-Lasting Solutions for a Small Business Recovery.”

The SBLC is a non-partisan, independent and permanent coalition of forty national trade and professional associations whose goal is to maximize the advocacy and presence of small and privately owned businesses on federal legislative and regulatory policy issues, and to disseminate information on the impact of public policy on small businesses and closely held businesses, including family owned businesses. Through its association members and their members, the SBLC represents more than 50,000 businesses across all sectors of the economy. The following proposals were developed based on a survey of SBLC’s members.

As this Committee is well aware, small businesses play a critical role in our country’s economy and provide nearly half of all private sector jobs. Supporting small businesses during the ongoing crisis and the recovery period that will follow will be critical to America’s road to recovery. As Congress and this Committee consider how to assist small businesses and their employees going forward, we would urge consideration and inclusion of the following measures:

- Establish carefully crafted liability shields for re-opening businesses that comply with CDC, OSHA and/or local requirements to prevent against COVID-19 related lawsuits from employees, customers, clients or patients. Specifically, in the absence of an allegation of gross misconduct or intentional wrongdoing, the SBLC urges Congress to establish a safe harbor for businesses that comply with applicable federal and/or state public health requirements. Unfortunately, contracting COVID-19 remains an inherent risk to daily life. Allowing lawsuits against businesses that have done their due diligence and taken all required precautions to prevent the spread of COVID-19 will severely hinder efforts to restart the economy. Also, businesses, particularly small businesses, need guidance on what their role is with respect to contact tracing.
- Expand the Paycheck Protection Program to allow small 501(c)(6) organizations to obtain PPP loans.



- Provide automatic loan forgiveness for loans under a certain threshold (the SBLC would suggest \$250,000). This will allow the smallest businesses to concentrate on keeping their business alive rather than taking valuable time for filling out complex forms which in some cases will require working with their accountants.
- Restore the business deductions eliminated by the Tax Cuts and Jobs Act, including the deductibility of business meals, entertainment expenses and parking. This will free up needed cash for small businesses.
- Make permanent and expand the 199A deduction established by the Tax Cuts and Jobs Act by significantly increasing the threshold level and eliminating the limitations applicable to specialized service businesses. By making this deduction permanent, it will provide some certainty for the vast majority of small businesses who operate as pass-throughs that their rate of taxation will be somewhat proportional to C corporations. By increasing the threshold level, much of the complexity inherent in 199A will be eliminated. The same is true of getting rid of treating “specialized service businesses” different from other small businesses.
- Provide tax incentives for small businesses to offset the cost of deep cleaning their facilities and providing PPE to their employees.
- Increase infrastructure funding and use investment in infrastructure as a means of jumpstarting economic investment and creating more job opportunities. The lack of adequate infrastructure funding is an issue that has long preceded the Coronavirus and that continues to have broad impacts across the economy. With the funding for key infrastructure programs set to expire, the SBLC urges Congress to include enhanced infrastructure funding in the larger discussion and priorities to set the country up not only to recover but to improve.
- Eliminate the cap on the State and Local Tax (SALT) deduction in order to boost small businesses in the real estate, construction and mortgage banking areas that are located in the areas most affected by the cap.
- Exempt non-public businesses with below a certain number (such as 100) of shareholders, members or partners or with annual gross receipts below a certain threshold (such \$10,000,000 - \$20,000,000 indexed) from Internal Revenue Code Section 409A. 409A was designed to stop public companies like Enron and Tyco from manipulating deferred compensation to avoid creditors and obtain lower tax rates but applies to all businesses. This has caused small businesses to expend significant time and money to ensure compliance while not achieving any meaningful national policy goal. Exempting those small businesses that 409A was not intended to target will help free up necessary



funds for these business as they recover particularly if there is an uptick in mergers and acquisitions in the turbulent months ahead.

- Allow small business non-C corporation owner-employees to participate in their own employer-based plans such as cafeteria plans. Technically this would mean to have 401(c) "owner-employee" language added to IRC sections 79, 104, 105, 106, 125, 129 and 132. Allowing owner-employees to participate in such plans, will encourage more small businesses to offer these meaningful benefits to their employees at a time when they will need them the most. The tax code as it stands today discriminates against small business owners of pass-through entities which in turn hurts the employees as well as the owners.
- Simplify the 401(k) discrimination tests and make them easier to pass without having to adopt the safe harbor and eliminate the obsolete and complicated top-heavy rules for defined contribution plans. These changes will make it easier for small businesses to administer their own plans and reduce fees to professional advisors. For instance, a new rule could be adopted that when the adjusted deferral percentage ("ADP") for non-highly compensated employees ("NHCEs") is 5% or higher, the plan automatically passes the ADP tests and if the ADP for the NHCEs is less than 5% then the maximum ADP for the highly compensated employees (HCEs) cannot exceed 2 times the ADP for the NHCEs.
- Relax the rules dealing with mortgage interest by allowing interest to be deducted over the \$750,000 mortgage balance and increase the mortgage limit from \$1 million to \$1.5 million. These changes will help the real estate and mortgage banking industries which in turn will help countless small businesses.

We thank you for your consideration of these proposals and would be pleased to discuss them in more detail.

For more information, please contact Paula Calimafde, President and General Counsel, 301-951-9325, calimafd@paleyrothman.com.

Good Afternoon,

We have been asked by Chairwoman Velazquez to submit a statement for the record for this week's hearing, "Long-Lasting Solutions for a Small Business Recovery." As an important member of this committee we wanted to make sure we shared some insight about our members unique issues especially our members in your district. Independent venues are the backbone of the creative industry and unlike many businesses – even restaurants- are facing much more dire predicaments as they have to remain completely shuttered indefinitely as we work to keep our country safe.

Town Stages is a beautiful 10,000 square foot venue in lower Manhattan, with multiple rooms, hi-tech amenities and a capacity of 299. This landmarked location is a women-owned,-built and led cultural arts institution.

Town Stages is truly unique, it is so much more than a venue-it is a movement. We are a **mission with a space**. Town Stages is the creative home for the [Sokoloff Arts Creative Fellowship & Residency](#) program which elevates community leaders at the intersection of arts, media, civics, social justice, and small business in New York City. Our mission advances equity in the arts, reinvigorates nightlife, and reclaims public assembly for women and minority-owned businesses.

Until now, our business model has allowed us to successfully sustain our operations. We do this by hosting mid-sized luxury events at a premium 54% of the time, allowing us to administer fellowships & residencies that provide free space and professional resources the other 46% of the time.

Town's monthly overhead is \$150K-that is just for basics- rent, utilities and payroll. We do not receive any outside funding or government land.

Due to the mandatory closure and challenges presented by Covid-19 Town has been and will be UNABLE to receive **any** revenue for the next 6 months to a year-possibly longer. **The clock on these payments has not stopped-we are fully responsible for all these expenses.**

Town's creative fellowship currently serves 74 fellows and residents including 13 organizations who each serve broader communities. We help our fellows and residents wade through challenging bureaucracy to apply for their rightful benefits, apply for work, navigate debt, navigate citizenship, residential leases, and healthcare. We advocate for our them where they are experiencing harassment and prevention of opportunity elsewhere.

On any given day Town has up to 150 people in and out of its doors. We provide 400 hours of **free space** room to room on a daily basis. Space that artists and makers of all kinds depend on. They are the heartbeat and backbone of New York City. We do this because it is the New York we all came here to build and the New York we want to serve. We believe that access to affordable and equitable space should not be a privilege. It is a human right.

The combination of bills that still demand to be paid and zero revenue for the foreseeable future is devastating for our employees and the 74 plus artists and their communities. Without financial relief or cancellation of rent, keeping Town Stages' doors open will be impossible. The effects will be catastrophic. The artists and employees need Town for their creative homes, jobs and livelihoods - they cannot survive without us and we cannot survive without them.

When a reopening does happen, it will happen cautiously with much less capacity. Public assembly will be limited. The revenue we count on for events and gathering will be cut in half if not more. It will take several months to a year to get back to any kind of financial stability.

We are asking for your advocacy to ensure Town Stages remains open. We want to continue our mission of reimagining equity and access in New York City.

Sincerely,

The Team at Town Stages

Staci Jacobs
Vice President



July 24, 2020

The Honorable Nydia Velázquez
Chairwoman
House Committee on Small Business
50 Independence Avenue SW
Washington, D.C. 20515

The Honorable Steve Chabot
Minority Ranking Member
House Committee on Small Business
50 Independence Avenue SW
Washington, D.C. 20515

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Alice Rodriguez

Jennifer Rodriguez

Raul Salinas

Rosa Santana

Ramiro A. Cavazos
President and CEO

Dear Chairwoman Velázquez and Ranking Member Chabot:

Thank you for the opportunity to address this committee on important policy matters facing Minority-owned businesses. On behalf of the United States Hispanic Chamber of Commerce (USHCC) and our Board of Directors, we would like to thank you for the opportunity to submit written testimony to the U.S. House Committee on Small Business during the scheduled hearing which took place on Wednesday July 15, 2020 "*Long-Lasting Solutions for a Small Business Recovery*".

The USHCC actively promotes the economic growth, development and interests of more than 4.7 million Hispanic-owned businesses that, combined, contribute over \$800 billion to the American economy every year. We also serve as a platform for our nationwide network of over 250 local Hispanic chambers of commerce. With the growing diversity in communities across the nation, the face of business ownership in America is changing, with minority-owned firms driving the growth in new business formation. In fact, Latinos open businesses at three times the rate of the national average and Latinas open businesses at six times the rate.

Minority Business Enterprises (MBEs) have been succeeding despite the many historical barriers minority entrepreneurs face as they work to start and grow a business. MBEs are two to three times more likely to be denied loans, they report annual gross receipts that are only one-third of the annual receipts reported by non-minority owned companies and they are half as likely to have at least one employee on payroll.

When we fail to invest in minority-owned businesses, our economy suffers. In fact, according to the Kauffman Foundation, if minorities were able to start and own businesses at the same rate as non-minorities, there would be 9.5 million more jobs and, according to Stanford University, \$1.3 trillion added to the American economy. Now is the time to invest in America's minority entrepreneurs as they face grave economic challenges due to the overwhelming impact of the COVID-19 pandemic. Collectively, we have actively been advocating for policies that will create systemic change and positive economic outcomes for MBEs as they strive to recover from this unprecedented economic turndown in America.

Attached for the congressional record of this hearing, please find the following letters detailing the recent advocacy conducted by the USHCC over the past four months leading up to this hearing on behalf of minority-owned businesses:

- **April 8, 2020:** United States Hispanic Chamber of Commerce Requests Provisions on Fourth COVID-19 Economic Relief Package to Ensure Diversity, Equity, and Inclusion to Support Hispanic and Minority-Owned Small Businesses in America.



- **April 15, 2020:** Urge for the inclusion of 501(c)(6) organizations among the list of entities that qualify for assistance under the Paycheck Protection Program (PPP).
- **May 8, 2020:** U.S. Hispanic Chamber of Commerce Policy Requests to Ensure Diversity, Equity, and Inclusion of Hispanic and Minority-Owned Small Businesses in Fourth COVID-19 Economic Relief Package.
- **June 22, 2020:** Request that the Federal Reserve utilizes its full powers to support, with a debt and equity facility, a vital sector of the economy that represents \$1.4 trillion in gross receipts and 7.2 million in jobs.
- **July 1, 2020:** Endorsement of the Minority Business Resiliency Act of 2020.
- **July 9, 2020:** Urge Congress to quickly pass this legislation that would forgive PPP loans of less than \$150,000 upon the borrower's completion of a simple, one-page forgiveness document.
- **July 17, 2020:** Advocacy Letter to Congress from National Minority Chambers of Commerce Regarding Funding and Resources for Minority-Owned Businesses.

The USHCC remains committed to advocating for the U.S. Congress to enact legislation that will create positive economic impact for Small Businesses and MBEs across America. We will continue to propose necessary solutions for the equitable inclusion of minorities into future economic stimulus legislation. We ask that our respective constituents be considered when our leaders in Congress seek to build solutions for COVID-19 economic relief, that our advocacy leaders of diverse backgrounds be included at the decision-making table, and that together we pledge forward to aid the prevalent needs of MBEs and their necessary economic recovery during and after the COVID-19 pandemic.

If you have any questions or require additional information, please do not hesitate to contact C. LeRoy Cavazos-Reyna, Vice President of Government and International Affairs via email at LCavazos@ushcc.com. Thank you in advance for your consideration in this matter, we look forward to your positive response and collaboration on these important policy priorities.

Respectfully,

Carmen Castillo
Chairwoman, Board of Directors

Ramiro A. Cavazos
President and CEO

CC: Hon. Nancy Pelosi, Speaker of the House of Representatives
Hon. Kevin McCarthy, Minority Leader of the House of Representatives
Hon. Joaquin Castro, Chairman, Congressional Hispanic Caucus
All Members of the U.S. House Committee on Small Business



April 8, 2020

The Honorable Maxine Waters
Chairwoman
House Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Patrick McHenry
Ranking Member
House Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

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Christine Rice

Alice Rodriguez

Jennifer Rodriguez

Raul Salinas

The Honorable Joyce Beatty
Chairwoman
Subcommittee on Diversity & Inclusion
2129 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Ann Wagner
Ranking Member
Subcommittee on Diversity & Inclusion
2129 Rayburn Office Building
Washington, D.C. 20515

RE: United States Hispanic Chamber of Commerce Requests Provisions on Fourth COVID-19 Economic Relief Package to Ensure Diversity, Equity, and Inclusion to Support Hispanic and Minority-Owned Small Businesses in America

Dear Chairwoman Waters, Chairwoman Beatty, Ranking Member McHenry, and Ranking Member Wagner:

On behalf of the United States Hispanic Chamber of Commerce (USHCC), our Board of Directors, and the Hispanic-owned business community, we are writing to express our recommendations as your committee considers the next phase of stimulus funding to keep the American economy on track during and after the COVID-19 crisis.

The USHCC actively promotes the economic growth, development and interests of more than 4.8 million Hispanic-owned businesses that aggregate contribute over \$800 billion to the American economy every year. We also serve as a platform for our nationwide network of over 250 local Hispanic chambers of commerce. Given the growing diversity in communities across the nation, the face of business ownership in America is changing, with minority-owned firms driving growth in new business formation. In fact, Latinos open businesses at three times the rate of the national average and Latinas open businesses at six times the rate.

Minority Business Enterprises (MBEs) have been succeeding in spite of the many historical barriers minority entrepreneurs face as they work to start and grow a business. MBEs are two to three times more likely to be denied business loans, have one third of the annual gross revenues when compared to non-minority owned companies, and are half as likely to have at least one employee on payroll. When we fail to invest in minority-owned firms, our economy suffers.

In this spirit, the USHCC asks for your consideration of the following proposed legislative recommendations as the U.S. House Committee on Financial Services and its Subcommittee on Diversity and Inclusion consider the next stimulus package. Our advocacy is focused on three overarching principles: 1) providing immediate liquidity for Hispanic small and medium-sized businesses, 2) ensuring that Hispanic and minority-owned small businesses are included in procurement opportunities with the federal government and in the economic stimulus funding, and 3) the commitment to continue to work as a resource with Congress in helping write future legislation and shape policy that aims to rescue the American economy.



The following legislative priorities have the ability to positively impact the economic trajectory of Hispanic and minority-owned small businesses in our country:

Federal Government Legislative Impact

Establish a Minority Equity Fund of \$50 billion to have the ability to fund Minority Business Enterprises (MBEs): Refer to the [Economic Stabilization Act of 2008](#) for language regarding MBE inclusion, specifically Section 107 contracting procedures to include the following legislative determinations: (a) STREAMLINED PROCESS.—For purposes of this Act, the Secretary may waive specific provisions of the Federal Acquisition Regulation upon a determination that urgent and compelling circumstances make compliance with such provisions contrary to the public interest. Any such determination, and the justification for such determination, shall be submitted to the Committees on Oversight and Government Reform and Financial Services of the House of Representatives and the Committees on Homeland Security and Governmental Affairs and Banking, Housing, and Urban Affairs of the Senate within seven days. Additional contracting requirements should include, any solicitation or contracts where the Secretary has, pursuant to subsections for minorities, deadline, or waiver authority. Waive any provision of the Federal Acquisition Regulation pertaining to minority contracting, the Secretary shall develop and implement standards and procedures to ensure, to the maximum extent practicable, the inclusion and utilization of minorities (as such term is defined in section 1204(c) of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (12 U.S.C. 1811 note)) minority and women-owned businesses (as such terms are defined in section 21A(r)(4) of the Federal Home Loan Bank Act (12 U.S.C. 1441a(r)(4)), in that solicitation or contract, including contracts to asset managers, servicers, property managers, and other service providers or expert consultants. Add the eligibility of FDIC insured financial institutions notwithstanding subsections (a) and (b), the Corporation, (1) shall be eligible for, and shall be considered in, the selection of asset managers for residential mortgage loans and residential mortgage-backed securities; and (2) shall be reimbursed by the Secretary for any services provided.

Resources for the Minority Business Development Agency (MBDA): Pass as part of this package the Minority Business Development Act of 2020, which would establish the Minority Business Development Agency (MBDA) in statute. Add an additional \$25 million of stimulus money to this agency so that necessary training, resources, and technical assistance can be deployed to businesses across our country through grants for entities who provide these services. MBDA is the only agency of its kind that promotes and administers programs in the public and private sectors to assist the development of MBEs.

Resource Partner Grants: Set forth an appropriation to expand Section 1103 (c) of the existing CARES Act to fund grant programs for resource and technical assistance support in the areas of business revitalization, new business technologies, expanded customer service, supplier diversity trainings, supplier diversity matchmaking, and financial services and lending to national organizations with business memberships. These organizations should include minority chambers of commerce, minority depository institutions (MDIs), community development financial institutions (CDFIs), and not exclude other nonprofit groups that have the ability to provide technical assistance to distressed businesses during and after COVID-19.



Resources and Services in Languages other than English: Expand Section 1111 of the existing CARES Act to provide minority communities with the necessary resources in their individual native languages. This section should not discriminate against communities of diverse racial ethnicities and should be inclusive of all minority groups in America. All resources should be adequately translated and distributed in all available channels to include the world wide web, printed materials, and in-person translation for any presentations conducted by a governmental entity when providing business assistance to affected businesses. This measure should also include services for the legally blind, visually impaired, and deaf communities.

Capital Financing for Hispanic-Serving Institution (HSIs): Expand Section 3512 of the existing CARES Act to include capital financing for Hispanic-Serving Institutions (HSIs). These educational centers create the pipeline of future business owners, entrepreneurs, and executives that will have the ability to actively contribute to the rebuilding and new evolving vitality of the American economy post COVID-19. HSIs should be considered for grant funding in Low-Minority Income Communities (LMIs) to provide necessary technical assistance through existing entrepreneurship, leadership, and business educational centers.

Corporate America Legislative Impact

Minority Business Enterprises as part of the U.S. Supply Chain: Require the U.S. Supply Chain, its suppliers, and contractors to include Minority Business Enterprises in the production, operation, and distribution of goods needed to combat disasters and future pandemics. Require the federal government to unbundle contracts from purchasing consortiums for goods and services and identify MBEs who currently manufacture or distribute these goods, to become an integrated part of Fortune 500 supply chains who maintain or seek federal contracts.

Non-Profit Legislative Impact

Stimulus Funding for 501(c)(6) organizations for non-profit economic relief: Propose an amendment to the CARES Act or consider the language under Section 1102 (a) definitions, the term 'nonprofit organization' means an organization that is described in section 501(c)(3) or 501(c)(6) of the Internal Revenue Code of 1986. These organizations should be included with parameters around their activity, mission, or number of employees in the entity.

Lending for minority and community banks: Addressing the capital needs and lending abilities of MDIs (minority depository institutions), Small Business Investment Companies (SBICs), community banks, smaller regional banks, and Community Development Financial Institutions (CDFIs). These banks primarily operate and serve low and minority income communities who have some of the most vulnerable businesses or most established minority business. Legislative action is needed so that these financial institutions can serve their customers, including businesses who may not have existing relationships with traditional financial institutions or lenders, in order to get them the necessary operating capital.

Small Business Legislative Impact

2019 Payroll Taxes: Forgive all 2019 Payroll Taxes for America's 30 million small businesses, allow the Internal Revenue Service (IRS) to wave these taxes to keep more Americans employed by infusing more capital into the economy and creating a substantial



operational impact for small businesses. This designation should be allowed for small businesses, per the established guidelines of the Small Business Administration (SBA).

Legislative Impact for Individuals

Independent Contractors and 1099 Employees: Ensure that 1099 employees can access funding to continue working, allowing their clients to maintain them on payroll, and ease the restrictions of the Paycheck Protection Program (PPP) so that employers can use 1099 employees as part of their payroll to access the PPP. Extend the PPP with more stimulus funding to allow for more businesses to apply and expand the number financial institutions who hold the PPP's lending power. Enact legislation that requires specific disaster business loans and other relief funds for the self-employed and independent contractors. Furthermore, this segment could be immediately boosted if the IRS waves the income taxes for the first \$10,000 of self-employed or contracted dollars these Americans gain.

Undocumented Business Owners and Workers: Set forth provisions to allow undocumented business owners and undocumented workers who can actively prove that they have paid the Internal Revenue Service (IRS) taxes in 2018 to take advantage of the existing CARES Act. These entrepreneurs and employees thereof, are active contributors to the American economy and should have the same access to rebuild their businesses and families to continue those economic contributions. Furthermore, Deferred Action for Childhood Arrivals (DACA) recipients who are in this country by no fault of their own should also be guaranteed access to these provisions regardless of the immigration status of others on their tax return or household.

If you have any questions or require additional information, please do not hesitate to contact C. LeRoy Cavazos-Reyna, Vice President of Government and International Affairs, LCavazos@ushcc.com or via phone at 956-844-9628. Thank you in advance for your consideration in this matter, we look forward to your positive response and collaboration on these important policy priorities.

Respectfully,

Carmen Castillo
Chairwoman, Board of Directors
United States Hispanic Chamber of
Commerce

Ramiro A. Cavazos
President & CEO
United States Hispanic Chamber of
Commerce

CC: Hon. Nancy Pelosi, Speaker of the House of Representatives
Hon. Kevin McCarthy, Minority Leader of the House of Representatives
Hon. Nydia M. Velázquez, Chairwoman, House Committee on Small Business
Hon. Steve Chabot, Ranking Member, House Committee on Small Business
Hon. Joaquin Castro, Chairman, Congressional Hispanic Caucus
Hon. Gregory W. Meeks, Chairman, House Financial Services Subcommittee on
Consumer Protection and Financial Institutions
Hon. Anthony Gonzalez, Vice Ranking Member, House Financial Services
Subcommittee on Diversity & Inclusion

April 15, 2020

The Honorable Nancy Pelosi
The Speaker of the House
United States Capitol
Washington, D.C. 20515

The Honorable Mitch McConnell
Majority Leader
United States Senate
Washington, DC 20510

The Honorable Nydia Velázquez
Chair
House Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515

The Honorable Marco Rubio
Chair
Senate Small Business and Entrepreneurship
284 Russell Senate Office Building
Washington, DC 20510

Speaker Pelosi, Majority Leader McConnell, Chair Velazquez and Chair Rubio:

First, we write to thank you for the historic passage of the Coronavirus, Aid, Relief and Economic Security Act. The undersigned organizations represent a broad coalition of industry trade associations that are working diligently with individuals desperately in need of the aid offered by the stimulus program. We write to you to urge that you include 501-C-6 organizations among the list of entities that qualify for assistance under the Paycheck Protection Program.

As the country gears up for what is bound to be one of the most difficult years in U.S. history, small businesses, independent contractors and the self-employed are seeking out help more than ever. Under unprecedented circumstances, these individuals are heavily leaning on trade associations to find training, guidance and peer-to-peer support as they navigate closed businesses, shelter-in-place restrictions, changing work parameters, and difficult budgetary decisions.

During the 2008 Great Recession, trade associations were instrumental in helping struggling businesses reinvent themselves to thrive despite changing economic landscapes and to help them rebound. Today, trade associations are playing that same role.

It is important to underscore that trade associations, like many struggling businesses, are employers. These nonprofit member-based organizations are facing similar difficult budgetary decisions, including possible layoffs. At a time when small businesses are relying more and more on these organizations, many small trade associations are in need of the same support small businesses are receiving to keep people on payroll and to keep overhead costs current.

The Paycheck Protection Program extended loans and loan forgiveness programs to businesses that employ fewer than 500 employees. The program also extended aid to 501c(3) non-profits because they too were facing difficult reduction of income streams while offering much needed public service during these difficult times. However, trade associations categorized as 501c(6)s were not included in the Paycheck Protection Program.

The undersigned organizations urge Congress to include 501c(6) organizations in the next Coronavirus legislation in order to access relief through the Payroll Protection Program.

Thank you for your consideration of this very important matter.

Sincerely,

American Land Title Association

Asian Real Estate Association of America

Latino Hotel Association

National Association for Equal Opportunity In Higher Education

National Association of Black Hotel Owners & Operators and Developers

National Association of Hispanic Real Estate Professionals

National Association of Local Housing Finance Agencies

National Association of Minority Automobile Dealers

National Association of Minority Bankers of America

National Association of Real Estate Brokers

National Association of Realtors

National Association of Women in Real Estate Business

National Business League, Inc.

National Housing Conference

National Leased Housing Association

United States Hispanic Chamber of Commerce



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Raul Salinas

May 8, 2020

The Honorable Nancy Pelosi
Speaker of the House
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Charles Schumer
Minority Leader
U.S. Senate
Washington, D.C. 20510

The Honorable Mitch McConnell
Majority Leader
U.S. Senate
Washington, D.C. 20510

The Honorable Kevin McCarthy
Minority Leader
U.S. House of Representatives
Washington, D.C. 20515

Re: U.S. Hispanic Chamber of Commerce Policy Requests to Ensure Diversity, Equity, and Inclusion of Hispanic and Minority-Owned Small Businesses in Fourth COVID-19 Economic Relief Package

Dear Speaker Pelosi, Majority Leader McConnell, Leader Schumer, and Leader McCarthy,

On behalf of the United States Hispanic Chamber of Commerce (USHCC), our Board of Directors, and the Hispanic-owned business community, we are writing to express our policy requests as you consider the next phase of stimulus funding to keep the American economy on track during and after the COVID-19 economic crisis.

The USHCC actively promotes the economic growth, development and interests of more than 4.7 million Hispanic-owned businesses that aggregate contribute over \$800 billion to the American economy every year. We also serve as a platform for our nationwide network of over 250 local Hispanic chambers of commerce.

Prior to the COVID-19 economic crisis, Minority Business Enterprises (MBEs) have been succeeding in spite of the many historical barriers minority entrepreneurs face as they work to start and grow a business. MBEs are two to three times more likely to be denied business loans, have one third of the annual gross revenues when compared to non-minority owned companies, and are half as likely to have at least one employee on payroll. When we fail to invest in minority-owned firms, our economy suffers.

In this spirit, the USHCC asks for your consideration of the following proposed policy requests as Congress considers the next stimulus package. Our advocacy is focused on three overarching principles: (1) providing immediate liquidity for Hispanic, small, and medium-sized businesses, (2) ensuring that Hispanic and minority-owned small businesses are included in procurement opportunities with the federal government and in the economic stimulus funding, and (3) our commitment to continue to work as a resource with Congress in helping write future legislation and shape policy that aims to rescue the American economy.

The following legislative priorities have the ability to positively impact the economic trajectory of Hispanic and minority-owned small businesses in our country:

Ensure Stimulus Funding and Economic Relief for 501(c)(6) Chambers of Commerce and nonprofit organizations: Amend the CARES Act under Section 1102 (a) definitions, to clarify that the term 'nonprofit organization' means an organization that is described in section 501(c)(3) or 501(c)(6) of the Internal Revenue Code. These organizations should be included with parameters around their activity, mission, or number of employees in the entity, and be amended to specifically allow Chambers of Commerce to access these funds.



Expand lending for minority and community banks, debt, and equity capital for minority asset managers: Address the capital needs and lending abilities of Minority Depository Institutions (MDIs), Small Business Investment Companies (SBICs), community banks, smaller regional banks, minority asset managers and Community Development Financial Institutions (CDFIs) that serve minority and low-income communities who represent some of the most vulnerable businesses as it pertains to cash flow and liquidity. According to the U.S. Small Business Administration, the \$30 billion that were earmarked for lenders that hold less than \$1 billion in assets and “non-banks” which include CDFI funds and other microlenders have nearly been exhausted within five days of the funds becoming available. Legislative action is needed to expand the \$30 billion of funding that were allocated so that these financial institutions can continue to serve their customers, including businesses who may not have existing relationships with traditional financial institutions or lenders, in order to get them the necessary operating capital.

Integrate Minority Business Enterprises as Strategic Vendors of the U.S. Supply Chain: Require the U.S. Supply Chain as it relates to federal government contracting to include Minority Business Enterprises in the production, operation, and distribution of goods and services needed for relief efforts, to combat disasters and future pandemics. A critical measure is to unbundle contracts from purchasing consortiums for goods and services and identify MBEs who currently manufacture or distribute these goods and services, to become an integrated part of public sector supply chains as they seek to maintain or obtain contracts. We encourage our leaders in Congress to leverage the U.S. Small Business Administration Small Business Development Centers, U.S. Minority Business Development Agency Minority Business Development Centers, and national business diversity organizations such as the U.S. Hispanic Chamber of Commerce to accomplish this goal.

More transparent reporting on SBA's PPP and disaster relief programs: Require lenders of all types to ask the ethnicity of loan applicants to the SBA to enable reporting with more demographics that includes the total number and dollar amounts of loans or grants approved and disbursed through the PPP, Emergency EIDL Grants Program, and the EIDL Program as well as the amount of remaining funding in each program. Weekly reporting should include a breakdown by industry, ethnicity, and loan/grant size. Furthermore, the SBA should require the top 15 Financial Institutions who are managing the lending for these loans to provide a good faith effort and set aspirational goals for a certain percentage for Hispanic and Minority-owned small businesses and report these results.

Resource Partner Grants: Set forth an appropriation to expand Section 1103 (c) of the existing CARES Act to fund grant programs for resource and technical assistance support in the areas of business revitalization, new business technologies, expanded customer service, supplier diversity trainings, supplier diversity matchmaking, financial services, and lending to national organizations with business memberships. These organizations should include minority chambers of commerce, Minority Depository Institutions (MDIs), Community Development Financial Institutions (CDFIs), and not exclude other nonprofit groups that have the ability to provide technical assistance to distressed businesses during and after COVID-19.

2019 Payroll Taxes: Forgive all 2019 Payroll Taxes for America's 30 million small businesses, allow the Internal Revenue Service (IRS) to waive these taxes to keep more Americans employed by infusing more capital into the economy and creating a substantial operational impact for small businesses. This designation should be allowed for small businesses, per the established guidelines of the Small Business Administration (SBA).

Capital Financing for Hispanic-Serving Institution (HSIs): Expand Section 3512 of the existing CARES Act to include capital financing for Hispanic-Serving Institutions (HSIs). These educational centers create the pipeline of future business owners, entrepreneurs, and executives that will have the ability to actively contribute to the rebuilding and new evolving vitality of the American economy post COVID-19. HSIs should be considered for grant funding in Low-



Establish a Minority Equity Fund of \$65 billion to have the ability to fund Minority Business Enterprises (MBEs), and minority managers to participate in any Economic Relief Programs as implemented by Treasury, SBA or other agencies: Refer to the [Economic Stabilization Act of 2008](#) for language regarding MBE inclusion, specifically Section 107 contracting procedures to include the following legislative determinations: (a) STREAMLINED PROCESS.—For purposes of this Act, the Secretary may waive specific provisions of the Federal Acquisition Regulation upon a determination that urgent and compelling circumstances make compliance with such provisions contrary to the public interest. Any such determination, and the justification for such determination, shall be submitted to the Committees on Oversight and Government Reform and Financial Services of the House of Representatives and the Committees on Homeland Security and Governmental Affairs and Banking, Housing, and Urban Affairs of the Senate within seven days. Additional contracting requirements should include, any solicitation or contracts where the Secretary has, pursuant to subsections for minorities, deadline, or waiver authority. Waive any provision of the Federal Acquisition Regulation pertaining to minority contracting, the Secretary shall develop and implement standards and procedures to ensure, to the maximum extent practicable, the inclusion and utilization of minorities (as such term is defined in section 1204(c) of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (12 U.S.C. 1811 note)) minority and women-owned businesses (as such terms are defined in section 21A(r)(4) of the Federal Home Loan Bank Act (12 U.S.C. 1441a(r)(4))), in that solicitation or contract, including contracts to asset managers, servicers, property managers, and other service providers or expert consultants. Add the eligibility of FDIC insured financial institutions notwithstanding subsections (a) and (b), the Corporation, (1) shall be eligible for, and shall be considered in, the selection of asset managers for residential mortgage loans and residential mortgage-backed securities; and (2) shall be reimbursed by the Secretary for any services provided.

Undocumented Business Owners and Workers: Set forth provisions to allow undocumented business owners and undocumented workers who can actively prove that they have paid the Internal Revenue Service (IRS) taxes in 2018 to take advantage of the existing CARES Act. These entrepreneurs and employees thereof, are active contributors to the American economy and should have the same access to rebuild their businesses and families to continue those economic contributions. Furthermore, Deferred Action for Childhood Arrivals (DACA) recipients who are in this country by no fault of their own should also be guaranteed access to these provisions regardless of the immigration status of others on their tax return or household.

If you have any questions or require additional information, please do not hesitate to contact C. LeRoy Cavazos-Reyna, Vice President of Government and International Affairs, at L.Cavazos@ushcc.com or via phone at 956-844-9628. Thank you in advance for your consideration in this matter, we look forward to your positive response and collaboration on these important policy priorities.

Respectfully,

Carmen Castillo
Chairwoman, Board of Directors

Ramiro A. Cavazos
President & CEO

CC: Hon. Marco Rubio, Chair, Senate Committee on Small Business & Entrepreneurship
Hon. Ben Cardin, Ranking Member, Senate Committee on Small Business & Entrepreneurship
Hon. Nydia M. Velázquez, Chairwoman, House Committee on Small Business
Hon. Maxine Waters, Chairwoman, House Committee on Financial Services
Hon. Joyce Beatty, Chairwoman, House Sub Committee on Diversity and Inclusion
Hon. Joaquin Castro, Chairman, Congressional Hispanic Caucus

Monday, June 22, 2020

The Honorable Jerome Powell
Chairman

Board of Governors of the Federal Reserve System
 20th Street and Constitution Ave., NW
 Washington, DC 20551

The Honorable Steven Mnuchin
Secretary

U.S. Department of the Treasury
 1500 Pennsylvania Avenue NW
 Washington, DC 20220

Re: Request that the Federal Reserve utilizes its full powers to support, with a debt and equity facility, a vital sector of the economy that represents \$1.4 trillion in gross receipts and 7.2 million in jobs.

Dear Chairman Powell and Secretary Mnuchin:

All the organizations that sign this letter lead the Industry Associations and Investment Management Associations that unite Minority business owners across the country. According to the Minority Business Development Agency (MBDA), minority businesses generate \$1.4 trillion in aggregate gross receipts and create 7.2 million jobs. During this economic crisis we must make every effort to preserve their productivity and job creation.

We request the opportunity to meet alongside our investment management experts so we can provide our perspective and proposed solutions. **We request that you provide serious consideration to the facilities and Main Street Lending program modifications we propose below, and that you provide through your toolset at least \$10 billion for the funding our businesses require so that our pre-COVID profitable businesses can fight the COVID war, and thrive, protecting millions of jobs. This will largely benefit our communities and provide much hope and resources during very difficult economic and social times.**

Unemployment is massive and rapidly crippling our communities. We work every day with these business owners; therefore, we can share first-hand the deeply troubling situation that many of our profitable and thriving pre-COVID 19 companies are now facing, resulting in productivity loss and massive job losses. Robert W. Fairlie, PhD in economics, in his recently published paper by NBER, *"The Impact of COVID-19 on Small Business Owners: Evidence of early-stage losses from the April 2020 current population survey"* provides the first analysis of impacts of the pandemic on the number of active small businesses in the United States using nationally representative data from the April 2020 CPS (current population survey) – the first month fully capturing early effects from the pandemic. According to the author: *This paper is the first to use CPS data covering the early effects of COVID-19 mandates and demand shifts on small businesses, and the first to explore differential effects for female, minority and immigrant business owners, which is potentially important for targeting government aid to preserve small businesses and the jobs they create.*

Further, the paper also provides disturbing statistics: *"the number of African-American business owners plummeted from 1.1 million in February 2020 to 640,000 in April. The loss of 440,000 black business owners representing 41 percent of the previous level is disconcerting. Latinx business owners also suffered major*

losses. The number of Latinx business owners dropped from 2.1 million to 1.4 million (32 percent) from February to March...The Stanford Latino Entrepreneurship Initiative (2020) surveyed 224 high-revenue Latinx-owned businesses and found that 86% of respondents reported immediate negative effects such as delayed projects and closure from the pandemic."

We request that you provide an opportunity for skilled and minority managers to add value and help salvage productivity and job creation. The capital crisis our businesses are experiencing has been largely compounded by the fact **that many of our business owners are not closely working with a bank**, reason why PPP had significant challenges and low minority participation rates. If the Main Street Lending program is distributed only through banks, this will continue to largely occur. The program excludes other valuable financial entities, such as debt and equity asset managers, especially those that are diverse owned and have experience and knowledge in our market and managing recession programs.

The need for equity is dire. We also believe it is imperative that the program, or a parallel facility, includes equity, a capital type that was included under the PPIP program during the last recession. In our estimation salvaging productive businesses and job creators is of imperative importance for our country and our economy.

Going back to full employment requires capital for productivity. We were pleased to hear on your Thursday June 11, 2020 press remarks about the commitment of the Federal Reserve to utilize its full toolset to allow for economic recovery. However, we want to express our deep concern because we know that job creation doesn't happen alone, and that **for our communities to be put back to work, our businesses must be supported with the right capital and technical assistance instruments.** Beyond PPP, EIDL, and now the Main Street Lending program, it is imperative that we stand up facilities of at least \$10 billion to utilize our skilled diverse asset management firms, who have the expertise to provide flexible **debt and equity**, short, medium and long term **value added** capital solutions. This can happen in close collaboration with chambers and industry associations who can provide **vital support, alongside capital**, to our business owners. Ultimately, this will largely maintain and improve productivity and job preservation, and will become a vital lifeline for these businesses to survive COVID-19 disaster and thrive beyond, continuing to provide all sorts of products and services to the economy including many essential goods and services. Many of these business owners have provided essential goods and services, are **innovators and inventors, are productive actors of our economy, and merit every reason to be supported financially** during this crisis.

Quantifying needs and what our skilled asset managers can achieve. As highlighted recently by Monika Mantilla, who leads an SBIC impact fund and asset management firm that specializes in this segment and provided asset management services including public private programs during the last recession, at the recent **New York Fed Reserve "To Important to Fail" Event, the estimated needs for minority businesses stand at \$700 bill.** Asset management firms can and should operate as the next tier of capital solutions for a universe of approx. 8,000 diverse enterprises that sell north of \$5 mill in revenue and generate a large percentage of the 7.2 mill jobs that minority businesses create.

Our needs. The large majority of our businesses are small, and need Community Development Financial Institutions, CDFIs, to support them with capital, with size of checks up to \$500,000. **But beyond those needs there is a next tier of solid businesses, across many industries, that need larger size of checks, both debt and equity, provided by value-add capital providers, many of which are minority owned. They need to be visible and valuable to the Federal Reserve and Treasury, and added as fiduciaries, service providers and advisors, in existing or future facilities and in the next legislative relief package. During the last recession the law included the following language:**

"Requires the Secretary, in any solicitation or contract containing such a waiver, to develop and implement standards and procedures to ensure the inclusion and utilization of minorities and women, and minority- and women-owned businesses, in that solicitation or contract, including contracts to asset managers, servicers, property managers, and other service providers or expert consultants.

<https://www.congress.gov/bill/110th-congress/house-bill/1424>

Becoming architects of our own solutions. We also would like to stress the importance of strengthening Minority Depository Institutions and minority owned CDFIs, so that our communities can continue to be architects of their own solutions. And we need an opportunity for our own asset managers to be fully utilized for the benefit of our economy and our country.

There are viable solutions and facilities adjustments as outlined in this letter that we must together contemplate and ask that you promptly implement for the benefit of our country and the strength of our economy.

We appreciate your consideration to our proposals to ensure our country minimizes the damage the pandemic has caused, and the current social unrest has uncovered. We trust the Federal Reserve and the US Treasury will see our segment of the economy and the importance it merits for the present and the future of our Nation.

Sincerely,



Ramiro A. Cavazos
President and CEO
United States Hispanic Chamber of Commerce
(USHCC)



Mark Madrid
CEO
Latino Business Action Network (LBAN), Stanford
Latino Entrepreneurship Initiative



Solange Brooks
CEO
New America Alliance (NAA)



Robert Greene
CEO
National Association of Investment Companies
(NAIC)

CC: The Honorable Mitch McConnell, Majority Leader, U.S. Senate
The Honorable Nancy Pelosi, Speaker, U.S. House of Representatives
The Honorable Charles Schumer, Minority Leader, U.S. Senate
The Honorable Kevin McCarthy, Minority Leader, U.S. House of Representatives
The Honorable Marco Rubio, Chair, U.S. Senate Committee on Small Business and Entrepreneurship
The Honorable Ben Cardin, Ranking Member, U.S. Senate Committee on Small Business and Entrepreneurship
The Honorable Tim Scott, Member, U.S. Senate Committee and Small Business and Entrepreneurship

The Honorable Cory Booker, Member, U.S. Senate Committee on Small Business and Entrepreneurship

The Honorable Maxine Waters, Chairwoman, U.S. House Committee on Financial Services

The Honorable Joyce Beatty, Chairwoman, U.S. House Subcommittee on Diversity and Inclusion

The Honorable Nydia M. Velázquez, Chairwoman, U.S. House Committee on Small Business

The Honorable Joaquin Castro, Chairman, Congressional Hispanic Caucus



July 1, 2020

The Honorable Nancy Pelosi
Speaker of the House of Representatives
U.S. House of Representatives
United States Capitol
Washington, DC 20515

The Honorable Mitch McConnell
Majority Leader
U.S. Senate
United States Capitol
Washington, DC 20515

Dear Madam Speaker and Majority Leader McConnell:

On behalf of the dozens of national, state and local organizations that have united to advocate for underserved and rural communities, the Page 30 Coalition writes you today in support of the *Recharge and Empower Local Innovation and Entrepreneurs Fund (RELIEF) for Main Street Act of 2020*.¹ We believe that the inclusion of this bipartisan proposal into the forthcoming Congressional relief package will promote economic opportunity and fiscal resiliency within communities that have been disproportionately affected by the COVID-19 pandemic.

First and foremost, we applaud lawmakers' efforts to combat this crisis with the passage of the *Coronavirus Aid, Relief, and Economic Security (CARES) Act* and subsequent relief legislation. Your actions have safeguarded the nation's small business ecosystem from further devastation. We write concerning the traditionally overlooked and marginalized groups that have experienced disparate effects.

The economic downturn caused by COVID-19 has highlighted the disproportionate burdens that still persist within the country's most underserved demographics, such as minority, women, tribal and veteran groups and other traditionally underserved entrepreneurs.² Early-stage data demonstrates that firms owned by People of Color were amongst the hardest hit businesses in the initial months of the pandemic. While Main Street America has lost a collective 3.3 million businesses between March and April 2020, American Black-owned businesses have declined by 41 percent, Latinx-owned firms have dropped by 32 percent, Asian-owned businesses have reduced by 26 percent, and women-owned businesses have declined by 25 percent.³

We agree with Department of Treasury Secretary Steve Mnuchin's sentiment that the federal government needs a far more targeted approach in deploying future small business relief.⁴ Like

¹ Senator Corey Booker (D-NJ), "Recharge and Empower Local Innovation and Entrepreneurs Fund (RELIEF) for Main Street Act," [Senator Corey Booker, May 14, 2020]

² Page 30 Coalition, "Letter to Lawmakers," [Page 30 Coalition, May 15, 2020]

³ Robert Fairlie, "The Impact of Covid-19 on Small Business Owners: Evidence of Early-Stage Losses from the April 2020 Current Population Survey," University of California, Santa Cruz - Department of Economics (University of California, Santa Cruz, June 9, 2020)

⁴ Niv Elis, "Mnuchin Indicates Openness to More PPP Loans in next COVID-19 Relief Bill," TheHill (The Hill, June 10, 2020)

Secretary Mnuchin, the Page 30 Coalition believes that future Congressional relief packages must comprise equitable and targeted policies that will address the unmitigated economic damages of COVID-19 for marginalized small businesses.

To that end, we urge lawmakers to consider the *RELIEF for Mainstreet* proposal, introduced by Senator Corey Booker (D-NJ), Senator Steve Daines (R-MT), and Senator Patty Murray (D-WA). This bill would help bridge the resource-gap by deploying \$50 billion to state and local small business relief funds and offering financing products, grants and zero-interest loans to small businesses in need. The inclusion of this proposal in the upcoming package would allow local communities to support microbusinesses, increase technical assistance services and combat additional enterprise-loss within minority markets.

Thank you for your consideration of this request. We commend your work on ensuring that all small businesses receive the resources necessary to withstand the current economic downturn. We urge you to reach out directly to Jamon Phenix, at jamon@page30coalition.org, with any questions, given the timely nature of these policies.

Sincerely,

Page 30 Coalition

July 9, 2020

The Honorable Marco Rubio
Chairman
Committee on Small Business &
Entrepreneurship
U.S. Senate
428A Russell Senate Office Building
Washington, D.C. 20510

The Honorable Nydia M. Velázquez
Chairwoman
Committee on Small Business
U.S. House of Representatives
2302 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Ben Cardin
Ranking Member
Committee on Small Business &
Entrepreneurship
U.S. Senate
428A Russell Senate Office Building
Washington, D.C. 20510

The Honorable Steve Chabot
Ranking Member
Committee on Small Business
U.S. House of Representatives
2371 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Rubio, Chairwoman Velázquez, and Ranking Members Cardin and Chabot:

The undersigned trade associations representing thousands of small businesses, banks, credit unions, financial institutions, and employees strongly support S. 4117, “The Paycheck Protection Program Small Business Forgiveness Act”, sponsored by Senators Kevin Cramer, Bob Menendez, Thom Tillis and Kyrsten Sinema. The Paycheck Protection Program (PPP), established by Congress in the Coronavirus Aid, Relief, and Economic Security (CARES) Act, has provided millions of small businesses the economic relief they need to meet the challenges posed by the COVID-19 crisis. This bipartisan legislation would ensure our nation’s small business owners can focus their time, energy, and resources back into their business and communities instead of allocating significant time and resources into completing complex forgiveness forms.

In order to help our nation’s smallest businesses, we urge Congress to quickly pass this legislation that would forgive PPP loans of less than \$150,000 upon the borrower’s completion of a simple, one-page forgiveness document. PPP loans of \$150,000 and under account for 86 percent of total PPP recipients, but less than 27 percent of PPP loan dollars. Expediting the loan forgiveness process for many of these hard-hit businesses will save more than \$7 billion dollars and hours of paperwork.

Data provided in an independent analysis by AQN Strategies (AQN) has shown an estimated benefit of issuing auto-forgiveness for various loan size thresholds.¹ AQN anticipates the

¹Ben Sabloff, Jason Ford, Gaby Garcia, “Is It Easier to Ask for Forgiveness Than Permission? Not for PPP Loans Under \$150K” *AQN Strategies*, June 1, 2020, <https://www.aqnstrategies.com/aqncentral/forgive-small-ppp>

combined resource requirements of operators' time and/or third-party expenses to represent an effective cost of \$2,000-\$4,000 for each business that applies for forgiveness, requiring 20-100 hours of focused time from key leaders of these businesses. With an average loan size of less than \$19,000 for the smallest 60 percent of loans, this estimate would represent 10-20 percent of the loan amount itself, which is otherwise intended to support payroll, rent, and other obligations necessary to keep businesses alive and ready to restart. In addition, AQN's analysis suggests that the cost to businesses and lenders would be lower than the cost for the government to auto-forgive loans.

Small businesses and their employees are the backbone of our nation's economy and communities. Their time and resources would be better focused on getting the economy safely back up and running, not processing burdensome paperwork. We strongly support S. 4117 and look forward to working with you, the Committee, and the 116th Congress to pass this bill and have it signed into law. Thank you for your strong, common sense leadership on such a critical issue.

Sincerely,

Aeronautical Repair Station Association
 Agricultural Retailers Association
 AICC, The Independent Packaging Association
 Air Conditioning Contractors of America
 American Bankers Association
 American Dental Association
 American Farm Bureau Federation
 American Financial Services Association
 American Foundry Society
 American Land Title Association
 American Road & Transportation Builders Association
 American Society of Media Photographers
 American Staffing Association
 Asian American Hotel Owners Association
 Associated Equipment Distributors
 Associated General Contractors of America
 Associated Industries of Massachusetts
 Associated Wire Rope Fabricators
 Association of Kentucky Fried Chicken Franchisees
 Association of Small Business Development Centers
 Association for Enterprise Opportunity
 Auto Care Association
 Bank Policy Institute
 Brick Industry Association
 Building Owners and Managers Association (BOMA)

California Association of Breakfast & Boutique Inns
 California Association for Micro Enterprise Opportunity
 California Hotel & Lodging Association
 CAMEO
 Commercial Food Equipment Service Association Inc (CFESA)
 Community Development Bankers Association
 Consumer Bankers Association
 Credit Union National Association
 Decorative Hardwoods Association
 Electronics Representatives Association
 Electronic Transactions Association
 Financial Services Forum
 Foodservice Equipment Distributors Association (FEDA)
 Global Cold Chain Alliance
 GovEvolve
 Golf Course Superintendents Association of America
 Hispanic Metropolitan Chamber
 Hotel Association of Los Angeles
 HUBZone Contractors National Council
 Impact Hub Houston
 Inclusiv
 Independent Community Bankers of America
 Independent Cosmetic Manufacturers and Distributors (ICMAD)
 Independent Electrical Contractors
 Independent Insurance Agents & Brokers of America
 Independent Lubricant Manufacturers Association
 Independent Office Products & Furniture Dealers Alliance
 Innovate Coalition
 Innovative Lending Platform Association
 International Franchise Association
 International Sign Association
 Leading Builders of America
 Kansas Global Trade Services, Inc.
 Long Beach Hospitality Alliance
 MarketPlace Lending Association
 Mid-Size Bank Coalition of America
 Manufacturer & Business Association
 Manufactured Housing Institute
 Modular Building Institute
 Motor & Equipment Manufacturers Association (MEMA)
 North American Association of Food Equipment Manufacturers (NAFEM)
 National ACE
 National Association of Chemical Distributors

National Association of Home Builders
 National Association of REALTORS®
 National Association of Federally-Insured Credit Unions
 National Association of Professional Employer Organizations
 National Association of Professional Insurance Agents
 National Association of the Remodeling Industry
 National Association for the Self-Employed
 National Association of Surety Bond Producers
 National Association for Surface Finishing
 National Association of Trailer Manufacturers
 National Automatic Merchandising Association (NAMA)
 National Bankers Association
 National Beer Wholesalers Association
 National Center for American Indian Enterprise Development
 National Community Pharmacists Association
 National Cotton Council
 National Electrical Contractors Association
 National Electrical Manufacturers Representatives Association (NEMRA)
 National Independent Automobile Dealers Association
 National Limousine Association
 National Marine Distributors Association
 National Mining Association
 National Office Products Alliance
 National Restaurant Association
 National Retail Federation
 National RV Dealers Assn (RVDA)
 National Wooden Pallet and Container Association
 North American Association of Food Equipment Manufacturers
 North Carolina Bankers Association
 Office Furniture Dealers Alliance
 Opportunity Finance Network
 Outdoor Power Equipment and Engine Service Association
 Page 30 Coalition
 Painting Contractors Association
 Partners for Rural Transformation
 Pet Industry Distributors Association
 Petroleum Marketers Association of America (PMAA)
 Professional Beauty Association (PBA)
 Promotional Products Association International (PPAI)
 Prosperity Now
 Secondary Materials and Recycled Textiles Assoc. (SMART)
 Security Industry Association
 Service Station Dealers of America and Allied Trades (SSDA-AT)

Small Business Majority
Small Business Council of America (SBCA)
Small Business Legislative Council (SBLC)
Small Business Investor Alliance
Small Business Majority
Small Business Roundtable
Society of Collision Repair Specialists (SCRS)
Southwest Cable Communications Association
Specialty Equipment Market Association
Specialty Tools & Fasteners Distributors Association (STAFDA)
Texas Bankers Association
The Latino Coalition (TLC)
The Society of American Florists
The Transportation Alliance
The Water Quality Association
Tire Industry Association
United Veterinary Services Association (UVSA)
U.S. Asian Pacific American Chamber of Commerce and Entrepreneurship
U.S. Black Chambers
U.S. Chamber of Commerce
U.S. Hispanic Chamber of Commerce
Virginia Asian Chamber of Commerce
Virginia Small Business Partnership
Washington Retail Association
Wine & Spirits Wholesalers Association
Women Impacting Public Policy (WIPP)
World Floor Covering Association
Young Audiences Arts for Learning



July 17, 2020

The Honorable Marco Rubio
Chairman
Committee on Small Business &
Entrepreneurship
U.S. Senate
428A Russell Senate Office Building
Washington, D.C. 20510

The Honorable Nydia M. Velázquez
Chairwoman
Committee on Small Business
U.S. House of Representatives
2302 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Ben Cardin
Ranking Member
Committee on Small Business &
Entrepreneurship
U.S. Senate
428A Russell Senate Office Building
Washington, D.C. 20510

The Honorable Steve Chabot
Ranking Member
Committee on Small Business
U.S. House of Representatives
2371 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Rubio, Chairwoman Velázquez, and Ranking Members Cardin and Chabot:

On behalf of the minority business community in the United States, we are thankful for all of the leadership and work each of you have demonstrated in helping to advocate for small businesses during our current economic crisis. We are writing to express our policy requests as you consider the next phase of stimulus funding to keep the American economy on track during and after the COVID-19 economic crisis. Collectively, the undersigned organizations represent the interests of more than 9.3 million minority-owned business enterprises (MBEs) and a network of more than 450 minority focused nonprofit organizations across the United States.

As the leading national voices for minority businesses in the United States, we want to ensure each of your committees are aware of the incredible risk these businesses are facing in light of COVID-19. We stand at an economic precipice in American history to help businesses recover as we continue to fight this unprecedented pandemic.

Even before COVID-19, minority-owned businesses have all faced challenges that underscore their economic fragility. A recent assessment by the Federal Reserve Bank found that minority owned businesses were more likely to show signs of limited financial health – indicated by factors such as profitability, credit scores, and a propensity to use earnings as a funding source for their

business. In a recent analysis of data provided by the Minority Business Development Agency (MBDA), 11% of minority-owned small businesses had employees compared with 22% of non-minority-owned businesses.

During this COVID-19 crisis, we have discovered a large concentration of minority-owned businesses that are susceptible to disruption and vulnerable to the impact of the pandemic in our country. Minority entrepreneurs are the largest owners of businesses in service industries – including restaurants, laundry services, salons, and retail. A recent study by McKinsey, shows that 51% of small business jobs performed by minorities could be vulnerable in the near term, compared to 47% of non-minorities. Their recent Business Pulse Survey also shows that 58% of these minority businesses are extremely concerned about the financial viability of their respective enterprise.

Prior to the COVID-19 economic crisis, MBEs have been succeeding in spite of the many historical barriers minority entrepreneurs face as they work to start and grow a business. MBEs are two to three times more likely to be denied business loans, have one third of the annual gross revenues when compared to non-minority owned companies, and are half as likely to have at least one employee on payroll. When we fail to invest in minority-owned firms, our economy suffers.

As organizations committed to help our community during these unprecedented times, we are asking our leaders in Congress to promptly develop legislation to help minority-owned businesses navigate and recover this crisis. On behalf of our members, we urge you to consider the following three policy priorities as we seek to provide aid to the communities, we represent in this recovery process:

- **Establish a Minority Equity Fund of \$10 billion to have the ability to fund Minority Business Enterprises (MBEs):** Congress needs to provide immediate grants to minority businesses to assist them with short-term and long-term liquidity. We are asking for an appropriation of \$10 billion to be allocated in the form of grants to help small minority businesses and nonprofit organizations who serve this demographic to allow them to provide necessary liquidity.
- **Funding for technical assistance and business resiliency through the Minority Business Development Agency (MBDA):** In order for minority-owned businesses to adapt their current models and operations in this new age of doing business, technical assistance, organizational resiliency training, and access to technology will be vital to the long-term success of minority-owned businesses. This includes the ability to understand how to rapidly adjust to a new reality caused by the COVID-19 pandemic. We believe any future relief funding for the businesses of our country must include financial assistance that will develop resilience programs for our businesses. Specifically, \$500 million should be appropriated to the MBDA so that it may provide financial assistance in the form of grants to minority business development centers and minority chambers of commerce to provide education, training, and technical assistance to all MBEs who are in critical need of this recovery guidance.

- **Resource Partner Grants:** Set forth an appropriation to expand Section 1103 (c) of the existing CARES Act to fund grant programs for resource and technical assistance support in the areas of business revitalization, new business technologies, expanded customer service, supplier diversity trainings, supplier diversity matchmaking, financial services, and lending to national organizations with business memberships. These organizations should include minority chambers of commerce, Minority Depository Institutions (MDIs), Community Development Financial Institutions (CDFIs), minority asset managers, and not exclude other nonprofit groups that have the ability to provide technical assistance to distressed businesses during and after COVID-19.

If you have any questions or require additional information, please do not hesitate to contact us at any time. Thank you in advance for your consideration in this matter, we look forward to your positive response and collaboration on these important policy priorities as you continue to design the economic future of our country through strategic bipartisan legislative action.

Respectfully,



Chiling Tong
President and CEO
National ACE



Ron Busby Sr.
President and CEO
U.S. Black Chambers, Inc.



Ramiro A. Cavazos
President & CEO
U.S. Hispanic Chamber of Commerce

CC: The Honorable Mitch McConnell, United States Senate Majority Leader
The Honorable Nancy Pelosi, Speaker of the United States House of Representatives
Members of the Congressional Hispanic Caucus
Members of the Congressional Black Caucus
Member of the Congressional Asian Pacific American Caucus