

**SMALL BUSINESS IN CRISIS:
THE 2020 PAYCHECK PROTECTION PROGRAM
AND ITS FUTURE**

HEARING
BEFORE THE
**COMMITTEE ON SMALL BUSINESS
AND ENTREPRENEURSHIP**
OF THE
UNITED STATES SENATE
ONE HUNDRED SIXTEENTH CONGRESS
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**SMALL BUSINESS IN CRISIS:
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THURSDAY, DECEMBER 10, 2020

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

The Committee met, pursuant to notice, at 10:03 a.m., via video-conference and in Room 301, Russell Senate Office Building, Hon. Marco Rubio, Chairman of the Committee, presiding.

Present: Senators Rubio, Risch, Scott, Ernst, Inhofe, Young, Kennedy, Romney, Hawley, Cardin, Cantwell, Shaheen, Booker, Coons, Hirono, and Rosen.

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

Chairman RUBIO. The hearing will come to order, and today's hearing will be focused on the Paycheck Protection Program. I would like to thank everyone that is joining us, both in person and virtually. I want to welcome our witnesses before the Committee. I believe we have two virtually and two here in person.

This pandemic, of course, has affected virtually every part of our lives—our health, our education, our jobs, our communities, our families, our economy, even the way we conduct business here.

To explain, I generally do not speak with a mask on. We have a lot of young people and others here who work in our process who, at this time of year, go home to see their families on the holidays. I would hate for anyone to be unable to do so because somebody tells them they sat too close to me for too long a period of time, and as a result they have to stay here over the holidays. So in an abundance of that caution, if anybody has any problems hearing me they will let me know and we will figure out how to work through that.

The pandemic, the nationwide lockdowns, were then, and they remain now, a big crisis for America's small businesses. In March, as the pandemic and the lockdowns began, crushing small business, the Senate and bipartisan members of this Committee responded by coming together and enacting what I think is, without a doubt, historical support for small businesses.

One of those lifelines was a program that was entirely new, and it did not exist, it had never existed before, and it was put together in a very short period of time. It was built upon the network of

community banks that the SBA has worked with for many years, to deliver needed capital to small businesses, and that support was what is now known as the Paycheck Protection Program.

And in this crisis we called upon every inch of America's financial infrastructure to help deliver that help that it brought to small businesses. And I think it is fair to say that it was not a perfect program, because no government program is possibly perfect, not to mention one put together in six, seven days and implemented over a short period of time. But I do think, without a doubt, it is clear that the Paycheck Protection Program has been the single most effective part of the CARES Act that was passed, and one of the most effective Federal relief programs in modern history, delivering more than \$525 billion to small businesses and nonprofits all across the United States.

It had two goals. The first goal was to help workers keep their jobs, to provide funds so that employers did not have to lay people off, keep workers attached to employment, and second, and related to the first, was helping small businesses to be able to stay open, not have to permanently close their doors.

Under the crisis conditions in which we created the program, to achieve these goals required setting a third goal—to deliver the support the PPP would provide, and do so as quickly as possible before those small businesses ran out of time and money.

As we look back, I believe it is more than fair to say that the program accomplished all three of those goals. The goal of worker retention, small businesses receiving PPP report saving up to 55 million jobs. In May 2020, the first jobs reports after the full amount of PPP loans had been disbursed showed the biggest month for jobs gained on record since 1939, and beat economists' expectations by over 10 million jobs.

As to the goal of helping small businesses, more than 5.2 million small businesses and nonprofits received PPP loans. By the end of May, the U.S. Census Bureau reported that more than 70 percent of all small businesses in the entire country—70 percent—received PPP loans.

As to the goal of delivering assistance as quickly as possible, the SBA approved nearly \$350 billion in PPP loans in just two weeks. And this is by far, and by any measure, the fastest delivery of funds, at this scale, for a fiscal policy program, in modern history.

This program was a tremendous success in meeting the goals that we created it to meet, and now I believe, personally, it is time, in a more tailored and surgical way, to do it again. The work that the first round of PPP began, though successful, it is still incomplete. The pandemic is still raging, lockdowns are again being contemplated, placed on small businesses and/or restrictions continue to be in place, allowing restrictions on their ability to operate, consumer activity in certain sectors is falling. And so by enacting a second round of tailored PPP assistance we can help build upon the success of the first round, fix some of the problems that were identified to that first round, and protect small businesses through the winter as we walk that bridge toward what we hope will be a widely-distributed vaccine that gets us to a point where we are no longer dealing with many of these restrictions.

As we consider that second round, this hearing provides a good opportunity to look at and take stock of what we learned in the first round. The priority of speed that we gave the program, however necessary, it did create some initial problems in implementation. For example, the average loan size approved at the beginning of the program was larger, and the number of companies that had access to capital elsewhere received PPP loans. That problem was resolved, yet the program's critics persist in saying that the program was skewed toward larger businesses.

The fact is 70 percent of PPP loans, 70 percent of the actual individual loans, went to small businesses that had 10 or less workers. The average business receiving a PPP loan at the end of the program had 13 workers, and 80 percent of all funds went to businesses with fewer than 200 employees, even though all businesses with 500 or fewer were eligible.

Another example is related to fraud. We have learned a good deal about the need for inspection and oversight by the administering agencies. However, the evidence so far does not suggest a fraud rate in PPP that is higher than that of any of the other programs in the CARES Act, and the evidence suggests, actually, that PPP suffers from a lower risk of fraud, much lower risk than the EIDL program, which is an existing program. And one of the reasons for this success has been the fact that the banks and credit unions delivering PPP are still subject to Federal antifraud regulation, and this public-private partnership, in combination with increased SBA and Treasury oversight, allowed us to strike an important balance of ensuring fraud protection while also distributing program funds in a timely manner.

Another example is with respect to the equitable distribution of funds to small businesses owned by people of all backgrounds, all races, and ethnicities. As we explored in a hearing this past July, we have learned the importance of community financial institutions, like CDFIs and the technical assistance grants through agencies like the Minority Business Development Agency. Though certainly a disparity at the program's beginning, the heroic work of community financial institutions such as these helped to overcome much of that.

There was a survey completed by Goldman Sachs that found that by the conclusion of the program, 93 percent of Black-owned small businesses applied for a PPP loan, and of those who applied, 95 percent received a PPP loan. According to the SBA's demographics survey data, minority-owned small businesses received a higher percentage of PPP loans than their relative share of business ownership in the U.S. Black- and Hispanic-owned small businesses account for 7.8 percent of total small businesses. So 7.8 percent of the small businesses in the country are owned by African American or Hispanic, and yet they successfully received 10.6 percent of the total PPP loans disbursed.

So despite some negative narratives that I have seen, I have heard loud and clear about the success of PPP from small business owners throughout the country. For instance, Between Pixels, in Marietta, Georgia, said, "We applied for and received the PPP loan, which helped us focus our energy on pivoting our business model. The funds allowed us to reassign staff to these opportunities rather

than cut positions, which ended up making up for the revenue we lost from our traditional services,” end quote.

Mike Zaffaroni, the owner of Liberty Landscape in Jacksonville, Florida, said, “If I had to sum up the PPP loan in one word for us, it gave us confidence. We would be in a much different position without it.” That is the end of his quote.

So these represent only a small portion of the comments we have received from small businesses about the program. As I said at the outset, while there are certainly better days ahead with the promises of successful vaccines—we should have great confidence that certainly before this time next year we will all be living a very different situation—we do have an immediate need over the next few months that requires action. Small businesses need more help to make it through this winter. Given a potential second wave looming and impending government lockdowns in different jurisdictions, it is vitally important.

I think perhaps the biggest evidence of all how this program has worked is that in a time in which it is difficult for the parties, and even within the parties to agree on many things, Congress has voted unanimously, on three separate occasions, to fund and enhance PPP, and I believe it is far past time for us to come together and do it once again. It had been my hope we would have done it months ago, but I hope we will do it now. I cannot imagine not doing it, what its implications would be.

So as I said, today’s hearing will provide us an opportunity to evaluate the first round, to discuss the future of the program, with all these goals in mind, and I look forward to hearing from today’s expert panel on their experiences with PPP.

And now I am going to recognize the Ranking Member, Senator Cardin, who will deliver his opening statement.

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

Senator CARDIN. Senator Rubio, first thank you, and in the interest of safety I am doing this remotely so that we can have fewer people in the committee room.

This is likely to be Senator Rubio’s last hearing chairing the Small Business and Entrepreneurship Committee. He is moving on to, as I understand, different responsibilities in the next Congress. And I just wanted to take a moment to congratulate you on an incredible record during these two years that I have had the honor to sit next to you as the Ranking Democratic Member.

You have really put the Small Business and Entrepreneurship Committee on the map in the United States Senate during this pandemic. Under your leadership, we have really responded to the needs of small businesses, and we recognize that small businesses are the growth engine of this country. It is where jobs are created and innovation takes place, and they are not as resilient in dealing with economic downturns. And it was absolutely essential that we respond in a very major way during this pandemic, and under your leadership we were able to do that.

So I want to congratulate you on just a great record, and I look forward to working on this Committee on other issues, and I know you will be remaining on this Committee, as we look at how we can

do things moving forward to ensure the success of small businesses.

The programs that you referred to that we were able to develop, particularly the Paycheck Protection Program, was one that involved the work of all the members of Committee, and I just really wanted to acknowledge that this has been really a bipartisan group effort to develop ways that we could provide comprehensive help to small businesses during this pandemic. Every member needs to be praised. I particularly want to acknowledge the former Ranking Member on our side, Senator Shaheen, for the work that she did as we were crafting the different programs in the CARES Act.

You have mentioned the Paycheck Protection Program was stood up very quickly. I agree with you. I think the Paycheck Protection Program, the enhancements in the EIDL program, including grants, the loan forgiveness program, and the fact that we not only passed it but we also acted two other times to replenish and extend the Paycheck Protection Program. We did it when we replenished, we directed that funds be targeted to underserved communities. When we look at what we did, it was very successful and I agree with you. I want to underscore that this was a program stood up nearly overnight, to get money out quickly to small businesses to keep them alive, and it accomplished its intended purpose.

More needs to be done. We passed the CARES Act that included these programs in mid-March, and when we passed those in mid-March we really thought that this pandemic would be behind us by this past summer, but that was not the case. So I agree with Senator Rubio that we need to act, we should have acted before now, in extending relief to small businesses. It is desperately needed.

As we are holding this hearing, the United States is recording 200,000 new virus cases a day, six times higher than we saw last spring, three times higher than we saw this past summer. In the past we have regional breakouts that caused concern. We now have a nationwide breakout of the virus in every part of our country. New restrictions are being imposed, and those businesses that depend upon larger gatherings are very much compromised as this pandemic continues. Food services, hospitality, entertainment, travel, tourism—the list goes on and on.

We need to respond, but we need to target the next round of relief for several reasons. Let us remember what we learned from the CARES Act. We learned that our experience is that we put into the CARES Act a provision to require the Small Business Administration to issue guidelines for underserved and underbanked borrowers. They did not do that. We need to be more prescriptive, as we did when we replenished the funds to allocate to CDFIs, micro-lenders, and other mission lenders.

We need to be more specific as to how we allocate these funds for several reasons. I believe we need to concentrate on smaller of the small businesses. Senator Rubio, I appreciate the numbers that you were able to present today. You and I know we have had one difficult time getting information out of the SBA as to how this program has worked. Their transparency has been terrible, and it is something that needs to be corrected. We need to have accountability and we need to understand the program as we move for-

ward, and we have been very much handicapped because we have not been able to get that type of information.

But one thing is clear as we go into a second round, and you and I understand this. We are going to have limited resources. We are not going to have as much as we would like to have. We are going to be dealing with a bridge aid package, if we can get it done, that will hold us all for several months. We need, therefore, to recognize we cannot do everything we want to do, and the hardest-hit small businesses are the smaller small businesses. So let us target the program to the smaller of the small businesses. Let's make sure it is based upon need so that we get to the small businesses that really need help, those that have been dependent upon large gatherings that cannot have those gatherings in their business.

And let us reach out to the underserved community, because what we learned in the CARES Act, that those who did not have priority-established relationships with lenders were not first in line. In some cases they were not able to get into the line at all. So we have to recognize that we have to reach out and do more to make sure the help gets to the underserved community.

And let us also recognize that for many small businesses another loan is problematic. They need grants. Grants are very important. That is why, as we look at the next round, let us concentrate on how we can fine-tune the EIDL advance program, which are direct grants by the Federal Government without going to lenders, how we can refine that grant program to meet the needs of the underserved and underbanked community.

We have already seen this model in action in my hometown of Baltimore, where the Baltimore Development Corporation has provided support to small businesses based on need and other factors, not on first-come, first-served basis. It is vital that we learn from the best practices of local organizations like the Baltimore Development Corporation, as well as directly from small business owners, because they have the best understanding of what is working and what is not working.

Mr. Chairman, we also need to make sure that we maintain the bipartisan support that was the hallmark of passing the original programs to help small business, as we get into the next round. We need to make sure that we include the Democrats, Republicans, House, Senate. Let's get this done.

I want to thank our witnesses for providing their testimony this morning. I am especially looking forward to hearing from Maryland small business owner, Iman McFarland, who will share with us the impact COVID-19 has had on her event space, and tell us how she was able to use the resources provided by the CARES Act to pivot her business.

My hope is that we will leave this hearing with a better understanding of how best to improve not only PPP but all the programs that small businesses need to make it through the pandemic, including EIDL, Small Business Debt Relief Program, and future grant programs for small businesses unable to take on additional debt.

I look forward to hearing from our witnesses. Thank you.

Chairman RUBIO. Thank you, Senator Cardin, and, by the way, I can just say none of this would have been possible without a part-

ner like Senator Cardin, and everybody on the Committee and so many others. And, a particular thanks to Senator Shaheen and Collins who are not members of the Committee but were intricately involved in the design of this program as well. It was a very rewarding process to be a part of that and I want to thank all of them for all the work they put into it. They were phenomenal.

Our witnesses today, we have two here with us, Ms. Iman McFarland, who is the Chief Operating Officer and second-generation co-owner of the 21st Century Expo Group, the Nation's only woman- and minority-owned general service contractor in the events industry, and serving clients for more than 28 years.

And Douglas Holtz-Eakin, who is the President of the American Action Forum. He was the Chief Economist of the President's Council of Economic Advisors from 2001 to 2002. He was the Director of the Congressional Budget Office from 2003 to 2005.

Joining us remotely is Ms. Dafina Williams, the Senior Vice President of Public Policy at the Opportunity Finance Network, the National Association of Community Development and Financial Institutions, and Thomas Zernick is the President of CreditBench, the SBA lending division at First Home Bank in St. Petersburg, Florida.

I want to thank all of our witnesses for being here with us today, and I think we will just begin with the witnesses here. Mr. Holtz-Eakin, we will start with you, and then we will continue with Ms. McFarland, and then go to our witnesses that are remote.

But thank you all for being a part of this important hearing. It is very timely, not just to look back at the previous round of assistance but as we are contemplating new assistance how we can learn from the problems in the first round and make it better. So thank you all for being here.

**STATEMENT OF DOUGLAS HOLTZ-EAKIN, PRESIDENT,
AMERICAN ACTION FORUM, WASHINGTON, DC**

Mr. HOLTZ-EAKIN. Chairman Rubio, Ranking Member Cardin, and members of the Committee, thank you for the privilege of being here today. Let me make a few brief point and then I look forward to answering your questions.

In thinking about evaluating the Paycheck Protection Program, PPP, it is important to remember the economic conditions into which it was introduced. When the coronavirus pandemic became apparent in mid-March, American households experienced an enormously sharp pullback in spending as they stopped consuming services that involved personal contact. So people did not go to restaurants, people did not get on airplanes, they did not go to hotels, and in large swaths of American business customers simply disappeared and there was an enormous cash flow crunch in the U.S. economy.

In the face of that kind of a cash flow crunch, what can you do? Well, businesses, first of all, sold everything they could in order to raise cash, and we saw massive selloffs in financial markets, which required the Federal Reserve to step in and stabilize, which they did quite effectively. But in those circumstances it is also tempting to simply lay everybody off, and there was a need for intervention to stop those layoffs, preserve employer-employee relationships,

preserve the infrastructure of the American economy through the pandemic as it bridged to the other side, and in those circumstances, also provide the paycheck for American households to continue to live in the face of such an enormous downdraft.

It is hard sometimes to imagine just how bad those conditions were. It turns out that in the second quarter of 2020, the U.S. economy contracted by 9 percent. In the worst full year of the Great Depression, 1932, the U.S. economy contracted by 12 percent. So we experienced something very close to that in the second quarter of 2020.

In those circumstances, what the PPP did was simply fantastic. It is—and I agree with the Chairman’s assessment—the single most effective fiscal policy ever undertaken by the United States Government. It got over \$500 billion out the door and into small businesses in about four weeks. It preserved employee relationships with their employers, thus preventing a lot of economic scarring that would take a long time to recover from. And it provided that \$500 billion in liquidity, in cash flow, to the workers and their employers in order to get through the 22 months that the program was designed to cover.

Its enormous success really stands out in contrast to, for example, the Main Street Lending program, which was intended to help larger employers, and which effectively provided no support whatsoever. And so in thinking about the PPP, I think it is important to recognize that speed was of the essence, and speed was in the program, the scale of the response had to be enormous because the scale of the downturn was enormous, and, you know, it had to really put a premium on speed and scale, and it did that very, very well.

The Census Pulse data is really quite striking, that reports that three-quarters of American small businesses received a PPP loan. I think the success is just enormous.

We now find ourselves in a similar situation, where we need a bridge to the other side of another surge in the coronavirus pandemic, and another round of PPP, I think, is entirely merited. And the good news is there is a lot of experience from the first round, that would actually be brought to bear on a second program, and it can be designed with a little more targeted approach, because we are not experiencing the same kind of broad cash flow crunch that we saw earlier in the year.

So in going forward, it would make sense to, first of all, address those issues with the lenders. I think it is important that lenders be given strict limits on their liability so that they are held harmless from any misrepresentation by borrowers. That was close but not quite done the first time around. I think that would be a big improvement.

There is no need to cover publicly-traded companies. They have access to capital markets. Capital markets are functioning adequately, and so it can be targeted more carefully.

I do not think it is a failure of the PPP to have gotten loans out to the larger employers. The whole point was to preserve employees’ paychecks. Large employers have more employees. That was a success in that moment. But going forward it could be targeted to smaller firms, under 300 employees and the like. And, you know,

I think having both less lender liability and a broad array of lenders will ensure that the funds are distributed more broadly in the U.S. economy, and that would be a success going forward.

So I thank you for the opportunity to be here today. I am quite encouraged by what was done last spring. I think it is possible to do the same kind of good again in this moment, and I look forward to answering your questions.

[The prepared statement of Mr. Holtz-Eakin follows:]

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Testimony on:

Small Business in Crisis: The 2020 Paycheck Protection Program and Its Future

United States Senate

Committee on Small Business and Entrepreneurship

Douglas Holtz-Eakin, President*
American Action Forum

December 10, 2020

*The views expressed here are my own and not those of the American Action Forum. I thank Thomas Wade for his insight and assistance.

Chairman Rubio, Ranking Member Cardin, and members of the Committee, thank you for the privilege of appearing today to share my views at this hearing titled “Small Business in Crisis: The 2020 Paycheck Protection Program and its Future.” I wish to make three main points:

- The \$525 billion authorized by the Paycheck Protection Program (PPP) and disbursed by our nation’s banks is perhaps the single most effective policy tool deployed by Congress in response to the economic stresses posed by COVID-19;
- Any weaknesses exposed in the program are far outweighed by its successes, and were Congress to reinstate the PPP without any program changes this would likely be a significant benefit to the economy; and
- Potential PPP reforms include shifting focus to revenue replacement rather than payroll retention, simplified forgiveness, and structural improvements at the Small Business Administration (SBA) and Treasury.

The Status of the Paycheck Protection Program

Title IV of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, signed into law on March 27, 2020, set aside \$349 billion for the relief of small businesses, to be administered by the SBA in the form of the PPP¹. The SBA commenced the PPP on April 3, 2020, and closed the program on April 16, 2020, on the exhaustion of the \$349 billion appropriated by Congress. Congress later provided an additional \$310 billion for the PPP in H.R. 266, the Paycheck Protection Program and Health Care Enhancement Act.² This supplement brought the total funds available to the SBA and the PPP to \$659 billion.

Per the original drafting of the CARES Act, the PPP program was due to expire at midnight on June 30 regardless of funds remaining. Just hours before the expiration of the program, Congress authorized an extension through August 8. This date passed without a second extension to the program, with the result that the SBA ceased taking applications to the program.

As a result, the PPP remains frozen in time as of August 8. As of that date, the SBA has disbursed \$525 billion of the \$659 billion so far appropriated by Congress to this program, with \$134 billion, or 20 percent of PPP funds remaining available to the program.³ Figures A through D (below) illustrate the total number and value of PPP loans disbursed to date in addition to the average value of a PPP loan and the total number of SBA-approved lenders across the entire life of the program. All data in Figures A through G come from the SBA website, as interpolated by the American Action Forum.⁴

¹ <https://www.banking.senate.gov/newsroom/press/cares-act-title-iv-summary>

² <https://www.congress.gov/bill/116th-congress/house-bill/266>

³ <https://www.americanactionforum.org/research/tracker-paycheck-protection-program-loans/>

⁴ <https://www.americanactionforum.org/research/tracker-paycheck-protection-program-loans/>

Figure A



Figure B

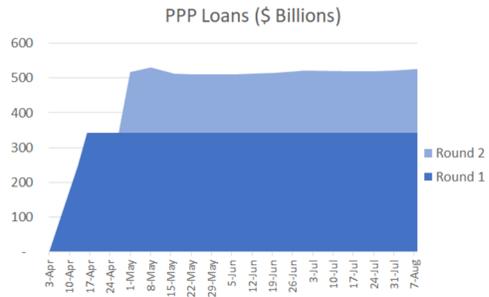


Figure C

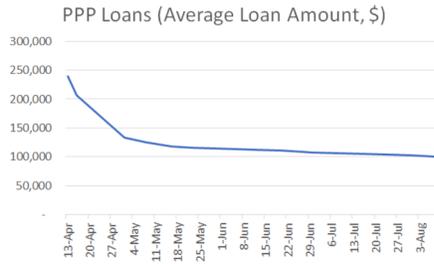
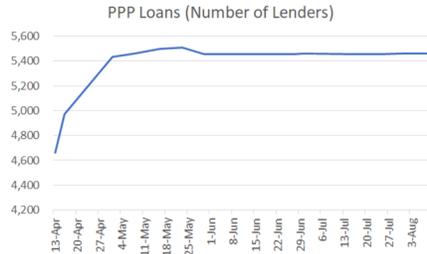


Figure D



The SBA also made available data on the top 15 lenders by value disbursed, a breakdown of all lenders in the program by asset size, and a breakdown by loan size, as can be seen in Figures E through G below.

Figure E

Top 15 Lenders, By Value Disbursed, as of 8/8/2020

Rank	Lender Name	Approved Loans	Net Dollars	Average Loan Size	Percentage of Total Authority
1	JPMorgan Chase	280,185	29,352,233,698	\$104,760	4.4%
2	Bank of America	343,626	25,557,615,698	\$74,376	3.9%
3	PNC Bank	73,925	13,003,814,963	\$175,906	2.0%
4	Truist Bank	82,047	12,631,618,727	\$153,956	1.9%
5	Wells Fargo	194,451	10,597,856,807	\$54,501	1.6%
6	TD Bank	85,970	8,557,036,274	\$99,535	1.3%
7	Keybank	43,172	8,211,676,707	\$190,208	1.2%
8	U.S. Bank	108,365	7,608,550,070	\$70,212	1.1%
9	Zions Bank	47,828	7,003,731,087	\$146,436	1.1%
10	M&T Bank	34,651	6,762,506,609	\$195,161	1.0%
11	Huntington Bank	38,486	6,575,686,696	\$170,859	1.0%
12	Cross River Bank	198,738	6,550,306,889	\$32,960	0.9%
13	Fifth Third Bank	40,071	5,422,983,389	\$135,334	0.8%
14	Citizens Bank	50,822	4,853,066,362	\$95,491	0.7%
15	BMO Harris Bank	21,993	4,835,997,160	\$219,888	0.7%
	Total	1,644,330	\$157,524,681,136	\$1,919,584	24%

Figure F

Lender Size, as of 8/8/2020

Lender Size in Assets	Lender Count	Approved Value (\$)	Percentage of Total Value	Approved Number	Percentage of Total Number	Average PPP Loan Value (\$)
>\$50 B in Assets	34	190,260,579,519	36%	1,696,961	33%	112,118
\$10 B to \$50 B in Assets	88	100,975,416,018	19%	769,963	15%	131,143
<\$10 B in Assets	5,338	233,776,205,586	45%	2,745,204	53%	85,158
Total	5,460	\$25,012,201,123	100%	5,212,128	100%	100,729

Figure G

Loan Size, as of 8/8/2020

Loan Size	Approved Dollars	Approved Loans	Percentage of Total Value	Percentage of Total Number
\$50K and Under	62,742,565,653	3,574,110	12%	69%
\$50K - \$100K	48,676,961,052	683,785	9%	13%
\$100K - \$150K	36,058,010,813	294,557	7%	6%
\$150K - \$350K	84,782,932,509	377,797	16%	7%
\$350K - \$1M	113,558,427,234	199,679	22%	4%
\$1M - \$2M	73,887,171,387	53,218	14%	1%
\$2M - \$5M	72,184,996,045	24,248	14%	0%
Greater Than \$5M	33,121,136,431	4,734	6%	0%
Total	525,012,201,124	5,212,128	100%	100%

Strengths of the Paycheck Protection Program

In June I noted in my writings that the PPP has been an enormous success; nothing has occurred since that time to change my opinion.⁵ The data presented above are testament to what the SBA and Treasury have achieved in coordination with our nation's banks – distributing \$525 billion in financial assistance to small businesses in a time of crisis. In the first two weeks of April and the first two weeks of May, the PPP distributed a combined \$513 billion, a testament to hard work at the SBA, which is used to handling fractions of this volume. The \$525 billion distributed stands in stark relief to emergency aid to companies as provided by the Federal Reserve's s13(3) emergency loan facilities, including the Main Street Lending Program, which to date has provided about \$2 billion of the \$600 billion it is authorized to back.⁶ The total \$669 billion authorized by Congress represents the single-largest component of the policy response to COVID-19 and alone is not far short of the estimated \$840 billion cost of the 2009 Recovery Act.⁷

Injecting billions of dollars into a supply – and therefore liquidity – shock economic environment could be deemed a success in and of itself. The PPP went further, however, and recent research by Hubbard and Strain shows that the PPP “substantially increased the employment, financial health, and survival of small businesses.”⁸

Figure C shows that across the entire life of the PPP the average dollar size of each loan only decreased. This decline means that new loans were steadily smaller; the average loan size fell from \$239,00 in the first week to \$100,000 by the end of the program. The PPP is well beyond serving only “big” firms and reached increasingly smaller ventures. At the end of the program, loans under \$50,000 represented 69 percent of total PPP loans, and 12 percent by value. Loans over \$5 million represent less than 1 percent of total PPP loans,

⁵ <https://www.americanactionforum.org/daily-dish/fixing-the-ppp/>

⁶ <https://www.americanactionforum.org/insight/assessing-financial-support-for-businesses-during-the-pandemic-the-state-of-play/>

⁷ <https://www.stlouisfed.org/on-the-economy/2017/may/which-bigger-2009-recovery-act-fdr-new-deal>

⁸ <http://ftp.iza.org/dp13808.pdf>

and only 6 percent by value. These proportions remained largely unchanged toward the end of the program.

Figure E demonstrates the vital role of our nation's banks in providing the loans backed by the PPP and the SBA. While credit is of course due to JP Morgan Chase and the other financial titans that provided such a significant percentage of total PPP authority, the list of top 15 lenders demonstrates a considerable effort by smaller and regional banks, demonstrating that the program was created to engage the banking industry as a whole.

Weaknesses of the Paycheck Protection Program

Program Structure

The PPP was created as a forgivable loan program where loans effectively acted as grants. The SBA delegated significant authority to banks to allow borrowers to borrow up to 2.5 times their average monthly payroll costs, capped at \$10 million.⁹ This fairly unique structure capitalized on existing relationships between small businesses and their lenders and the capital available within the banking system to disburse large amounts of funds very quickly. In this the PPP succeeded. Initial criticisms of the program's structure focused on the unusual necessity for the involvement of the banking industry and the incentives that would be required. The PPP was also criticized for the initial \$349 billion being too low, a problem that was corrected.

It is tempting to see the remaining \$134 billion unused by the PPP as a failing or a weakness, and indeed some commentators attempted to pin the blame on confusing program terms or a lack of clarity on forgiveness (see below). This assertion is refuted somewhat by the staggering news from the U.S. Census Bureau that nearly three-quarters of *all* small businesses in the United States received a PPP loan.¹⁰ One of the most common criticisms of the PPP is that the program limited aid to a single application, and thus that the program was clearly geared toward a much shorter lockdown period. While this made sense at the time (particularly when the program was only authorized for \$349 billion), nine months into a pandemic it is likely that businesses will require a second loan or source of support. This simple change would likely exhaust remaining PPP funds in short order.

If Congress has an appetite for more significant restructuring, the most effective reform could be to change the PPP's focus from payroll to revenue. While a useful goal, payroll is not the most reflective metric of the costs and challenges small businesses face. A revenue-replacement program would capture the universe of expenses facing small businesses and would be easier to certify. Such a program would likely be expensive, however, with Strain

⁹ <https://www.americanactionforum.org/insight/financial-services-provisions-in-the-coronavirus-aid-relief-and-economic-security-cares-act-final-version/>

¹⁰ <https://portal.census.gov/pulse/data/>

and Hubbard estimating that replacing 80 percent of revenue for 12 weeks for eligible service-sector businesses would cost \$1.2 trillion¹¹.

Allegations of Fraud and Inappropriate Recipients

In the first two weeks of April, publicly traded companies received \$365 million in PPP loans, leading to considerable condemnatory media coverage.¹² Some of these recipients, including Shake Shack and the L.A. Lakers, subsequently chose to return the proceeds. It is worth noting that none of these firms had acted inappropriately, and any funds they might have received would have aided them in retaining payroll, the entire point to this program. Nonetheless, the SBA responded to these criticisms by indicating that any business with access to capital markets would be unlikely to make a good-faith certification that it was in need of aid, and Treasury Secretary Mnuchin committed to a review of every loan provided in excess of \$2 million. Figure C above demonstrates that PPP loans only decreased in size, targeting increasingly smaller businesses.

In addition to singling out individual recipients of aid, the PPP has been criticized for not targeting industries most impacted by COVID-19, states most impacted by COVID-19, or minority groups disproportionately impacted by COVID-19.¹³ The PPP as drafted was not designed to discriminate on any of these factors. That the program still had funds available when the PPP expired indicates that “less deserving” recipients did not prevent “more deserving” recipients from obtaining aid, however those terms are defined. Some potential recipients of aid may have been prevented from obtaining a PPP loan by virtue of a lack of relationships with banks and lenders, however.

The SBA inspector general’s office reported that it found “tens of thousands” of PPP loans disbursed for borrowers in amounts that exceeded what the borrower could claim.¹⁴ In order to expedite the disbursement of aid to small businesses, the CARES Act removed usual bank requirements to validate and verify loan recipients (with the exception of anti-money laundering and financing of terrorism checks). Fraud in any government program is possible, doubly so when some of the safety rails are removed. That “tens of thousands” of cases of PPP fraud is, at maximum, two percent of all PPP loans provided should be considered a success. Again, if the program is functioning exactly as intended, it is difficult to brand this rate of fraud a failure – although if the PPP is reinstated, Treasury and the SBA can and should do more to reinforce the decision to hold harmless banks involved in borrower fraud lest banks stop offering PPP loans.

¹¹ <http://ftp.iza.org/dp13808.pdf>

¹² <https://apnews.com/article/6c5942eec36cc43b25ad5df5afebcfbd>

¹³ <https://www.pgpf.org/blog/2020/08/did-the-paycheck-protection-program-work-the-way-it-was-supposed-to>

¹⁴ <https://www.sba.gov/about-sba/oversight-advocacy/office-inspector-general>

Administration

The unprecedented size of the relief and speed at which aid needed to be deployed to save jobs would be a challenge for even the largest agency. But the SBA is tiny by the standards of other cabinet agencies. It had less than 4,000 full-time equivalent employees in fiscal year (FY) 2019; in comparison, the Department of Commerce had about 52,000 for the same year, according to its FY 2020 budget request.^{15 16}

The SBA's capacity presented a major potential implementation challenge. Across its lending platforms, SBA approved \$28.2 billion in loans in FY 2019 – 8 percent of what it is being asked to distribute in short order¹⁷. In order to overcome these challenges, the process will have to be streamlined to an extraordinary degree. In addition, the agency's budget request for 2020 was \$820 million, of which less than half would support direct-lending assistance.¹⁸ \$349 billion effectively equals roughly *one thousand times* the usual annual guaranty amount, delivered in only two months.

The SBA and Treasury's administrative challenges were not simply limited to personnel, and the PPP called attention to ageing government and agency IT systems, seen by Strain and Hubbard as the key factor preventing the U.S. government from having lent directly to small businesses themselves¹⁹.

Forgiveness, Verification, and Validation

In subsequent months, media attention and the force of criticism of the PPP has shifted to the final piece of the PPP term sheet: forgiveness. Initial SBA and Treasury information was extremely thin on the ground regarding the eventual forgiveness of PPP loans, the last part of the process and the step that turns PPP loans effectively into grants.

Subsequent FAQ releases have done some but not enough to explicate the process of forgiveness and leave lenders lost as to the process.²⁰ Confusion around the terms of the PPP was not (and is not) limited to the banks involved in the program, with some studies noting that 3 in 4 PPP borrowers were confused by loan terms.²¹

As noted above, as drafted, the CARES Act did not provide sufficient guidance on how the information flowing from borrower to lender to SBA should be verified and validated. A strict interpretation of the Act implied that significant portions of the usual underwriting

¹⁵ https://www.sba.gov/sites/default/files/2019-12/SBA_FY_2019_AFR-508.pdf

¹⁶ https://www.commerce.gov/sites/default/files/2019-03/FY_2020_DOC_BiB-032019.pdf

¹⁷ https://www.sba.gov/sites/default/files/2019-12/SBA_FY_2019_AFR-508.pdf

¹⁸ https://www.sba.gov/sites/default/files/2019-04/SBA%20FY%202020%20Congressional%20Justification_final%20508%20%204%2023%202019.pdf

¹⁹ <http://ftp.iza.org/dp13808.pdf>

²⁰ <https://www.nytimes.com/2020/10/09/business/small-business-ppp-loans-forgiveness.html>

²¹ <https://www.bankingdive.com/news/borrowers-paycheck-protection-program-confusion-loan-terms/578577/>

process should be taken on good faith, with what little testing that the Act requires (for instance, that a business seeking relief be in operation on February 15, 2020) placed the burden of verification on lenders. This, combined with confusion about the forgiveness regime, may have made many lenders reluctant to participate in the program.²²

Conclusions

The PPP was the *single-largest* source of support for the economy for the month of April. In that same month the economy shed 20 million jobs. It is painful to imagine how much worse this may have been without the prompt intervention of the SBA, although one MIT paper estimates that as of the first week of June the PPP had saved 2.3 million jobs.²³ It speaks volumes, to my mind, that one of the most pressing criticisms of the PPP was that it only allowed for businesses to receive one loan. How significant can all other criticisms of the PPP be if its biggest flaw is preventing businesses from accessing it again?

It does not seem a stretch to say both that the PPP has done much good and that, given the length of COVID-19 lockdowns, it may be time to reinstate and refund the program. If Congress does so without making any program changes this would still likely be an enormous success. If the appetite for change exists, I would strongly recommend that Congress consider a revenue rather than payroll-retention structure and allow for multiple applications as the pandemic continues. In addition, Treasury and the SBA must make the terms and forgiveness of PPP loans as clear as possible while improving program oversight and resources at both agencies.

Thank you, and I look forward to your questions.

²² <https://prospect.org/coronavirus/unsanitized-why-banks-dont-want-to-help-small-businesses/>

²³ <http://economics.mit.edu/files/20094>

Chairman RUBIO. Thank you very much. Ms. McFarland?

STATEMENT OF IMAN McFARLAND, CHIEF OPERATING OFFICER/CO-OWNER, 21ST CENTURY EXPO GROUP, INC., CAPITOL HEIGHTS, MD

Ms. McFARLAND. Thank you, Chairman. Chairman Rubio, Ranking Member Cardin, and distinguished members of the Committee, thank you for the opportunity to testify before you this morning. My name is Iman McFarland and I am the Chief Operating Officer of 21st Century Expo Group, located in Prince George's County, Maryland. I am here today not only representing myself but also my business partners, who happen to be my mom and dad, who are here with me today, but also my employees, my community of Prince George's County, and other small business owners around the country.

My parents started our family business, 21st Century Expo Group, 30 years ago, in their basement, when I was only 4-years-old. Today we are the only Black- and women-owned trade show management firm in the entire country.

We began 2020 with 10 employees and plans to expand, but as we lost the ability to generate event revenue in February, and all of our contracts were canceled, we were unfortunately forced to furlough those employees. Over the last 30 years, 21st Century has weathered the impacts of both the 9/11 terrorist attacks and the 2008 financial crisis, but 2020 was the first year in our entire history that we had to close our doors completely and lay off staff.

Thankfully for our business, and five million others around the country, the Federal Government acted quickly to pass the CARES Act in March, and stood up the Paycheck Protection Program, and it also expanded the use cases of the Economic Injury Disaster Loan. At 21st Century Expo Group we were fortunate, fortunate to have a strong relationship with our bank, fortunate to have up-to-date financial records, and fortunate to quickly receive both PPP and EIDL funds, funds that allowed us to stay afloat during the first half of this year, when our revenue declined by a staggering 85 percent.

PPP funds went toward bringing back five employees, rent on our warehouse, and providing health benefits for employees, while our EIDL funds went toward expenses like overhead costs, vendor payments, and our internet bills.

The bill's funds only lasted until October, and we knew we had to explore new opportunities. So we did what any entrepreneur does. We took stock of the assets we had and the needs we could meet and looked to chart a new path forward. My mom and I looked around Prince George's County and saw kids, schools, teams, and trainers who were facing unprecedented challenges and hardships, and then we looked at our 40,000-square-foot warehouse and saw an opportunity to give back while giving our business new life.

Thanks in part to our EIDL funds, we transitioned our warehouse into an academic and athletic training center. Not only are we helping the kids of PG County, we are providing coaches and tutors a much-needed place to generate income for themselves. We have been able to hire new administrative staff, bring back ware-

house managers, and employ other small businesses to help clean and manage our warehouse.

The government funds we received not only ensured our trade show company will continue and to be here when our industry returns but it will also help us create a second enterprise that provides employment in our community and needed services.

But we are not in the clear. We have gone to great lengths to keep our business solvent. We have laid off our staff, we have cut employee benefits, foregone paying ourselves, and dipped into personal savings to cover business expenses.

And we are obviously not alone. I am a proud member of Goldman Sachs' 10,000 Small Business Voices Program, and a November survey of this community showed that 42 percent have been forced to lay off employees or cut employee compensation; 52 percent have foregone paying themselves; 33 percent have dipped into their own personal savings, and these statistics are even more bleak for businesses with Black owners.

I am one small business and one voice, but I speak to the challenges faced by many. Millions of small people throughout the country need more help to survive. They need your help to survive. If I could ask for three things. First, we need additional PPP and EIDL funds. Second, we need to ensure that PPP loans do not have negative tax implications for small business owners. And third, commercial rent deferrals and other rent assistance would be invaluable for event businesses like mine, where facility rental alone is a major overhead cost.

I recognize that the response to this pandemic must first be, first and foremost, about protecting lives, but it must also focus on protecting livelihoods, including those of our Nation's most vital small businesses. Thank you.

[The prepared statement of Ms. McFarland follows:]



Testimony of Ms. Iman McFarland
 Chief Operating Officer
 21st Century Expo Group, Inc.

Before the Senate Committee on Small Business and Entrepreneurship

Chairman Rubio, Ranking Member Cardin, and distinguished members of the Committee, thank you for the opportunity to testify before you today. My name is Iman McFarland and I am the Chief Operating Officer of 21st Century Expo Group located in Prince George's County, Maryland. I come before you today not only representing myself, but also my business partner, who happens to be my mom and is with me here today, my employees, my community of Prince George's County, and small business owners around the country.

21st Century Expo Group was established 30 years ago by my parents in their basement when I was four years old and is today the only Black and woman owned trade show firm in the entire country. For 30 years, 21st Century Expo Group has designed, built, installed, and managed customized exhibits that our clients use to tell their stories, expand their brands, and reach target markets. Currently, my mom and I operate the business together with advice from my dad, who founded 21st Century and is also here with me today.

We began 2020 with plans to grow our business and had just undertaken a rebrand that we were excited to unveil. Then the pandemic brought everything to a halt. We have not generated events revenue since February and all of our contracts have been cancelled. In January of this year, we had 10 employees, whom we unfortunately had to furlough at the beginning of the pandemic as revenue flow ceased completely. We knew the initial shutdowns and ongoing restrictions were important to the health and safety of all Americans, but for hard-hit industries like ours, they required us to make difficult decisions about the future of our businesses. Over the last 30 years, 21st Century has weathered both the challenges of operating an events business in the wake of the 9/11 terrorist attacks and the 2008 financial crisis. 2020 was the first year in our history that we had to close our doors completely and lay off employees.

Many of our competitors are large, national businesses, employing hundreds of workers. They too were adversely affected by the lockdown and had to close their doors and lay off employees. However, because of their size and greater access to capital, many were in a position to consolidate their businesses and acquire virtual streaming platforms that allow them to continue holding online events and generating cash flow. Smaller trade show contractors – like 21st Century – tried to partner with other virtual event providers, but the cost and profit-sharing structure did not make sound financial sense.

Thankfully for our business and five million others around the country, the federal government acted quickly to pass the bipartisan CARES Act in March and stood up the Paycheck Protection Program (PPP). Not only this, they expanded the use cases of the Economic Injury Disaster Loans (EIDL). We at 21st Century Expo Group were fortunate: fortunate to have a strong relationship with our bank, fortunate to have up-to-date financial records, and fortunate to receive both PPP and EIDL funds that allowed us to stay afloat during the first half of this year. With the help of the PPP funds, we were able to fund payroll, pay rent on our warehouse, and provide health benefits for employees. The EIDL funds, meanwhile, went toward expenses like overhead costs, vendor payments, and our internet bill.

The PPP and the EIDL did more than just keep our business afloat, it created a rising tide of support that lifted up the five employees we were able to bring back, as well as the broader community we have been able to serve. We know not every small business across the country was as lucky. While we are still awaiting confirmation that we have received forgiveness on our PPP loan, our experience was extremely positive and we are grateful to legislators for their bipartisan approach on that legislation.

Both PPP and EIDL funds served as a vital bridge during the lockdown to combat the spread of COVID-19 – they helped us cover our overhead costs when our revenue declined 85% and quite literally kept the lights on while our industry came to an abrupt stop. But those funds only lasted until October, and we knew we had to explore new opportunities. So we did what entrepreneurs do: we reassessed the assets we had, the needs we could meet, and looked to chart a new path forward.

As small business owners, our employees are our family and our community is at the heart of our business, so my mom and I sought ways to serve our community, which was also suffering. We saw kids, schools, teams, and trainers around Prince George's (PG) County facing unprecedented challenges and hardships, and we saw in our 40,000-square-foot warehouse an opportunity both to give back to the community and expand our business.

Prince George's County is one of the basketball capitals of the country, and both my mom and I played basketball in college, so we combined our love for the game with our love for the community and created a meaningful way to stay in business and support others. Using a portion of our EIDL funds, we transitioned our facility into an academic and athletic training center. Following all the appropriate pandemic precautions, we launched a 90-day trial run in September. We have since invited 2,100 kids to come through our doors and have experienced zero cases to date. Not only are we helping the kids of PG County, we are also providing coaches and tutors – sole proprietors and other small businesses whose livelihoods depend on their ability to coach and teach in person – a place to generate income for themselves as well. In addition, we have been able to hire new administrative staff, bring back warehouse managers, and employ another small business to help clean and sanitize our warehouse.

In our case, the pivot to survive has now become an opportunity to help others thrive – to support our local economy and our local community, and provide a sense of normalcy in abnormal times.

We know that the trade show business will return eventually, but we do not know when that will be and what it will look like when it does. The critical funds we accessed not only helped to ensure that the company my parents built will still be here when it does, but they also enabled us to pursue a meaningful endeavor to generate revenue and support our local community even after our core business returns. In time, I am confident our trade show business will recover – if not expand. Thanks to the flexibility of the funding we received, there will now be a second enterprise providing employment in our community. My parents and I are immensely grateful for the PPP and EIDL loans from this spring; without them, our 30-year business would not have survived. But we are not in the clear. In order to keep our new center in business and prepare 21st Century Expo Group to thrive when the pandemic has subsided, we need more funding.

In conclusion, the story of 21st Century is not unique; thousands of small businesses around the country have had to make courageous and bold decisions throughout this pandemic. We have gone to great lengths to keep our business solvent: we have laid off staff, cut employee benefits, forgone paying ourselves, and dipped into personal savings to pay for business expenses over the past ten months. I am a proud member of Goldman Sachs' *10,000 Small Businesses Voices* program and a November survey of this community showed that 42% have also been forced to lay off employees or cut employee compensation. 52% of those surveyed have forgone paying themselves and 33% dipped into personal savings to keep their business operational. These data are even more bleak for businesses with Black owners, 61% of whom have forgone paying themselves and 58% say they have dipped into their personal savings to stay operational.

Small businesses desperately need government help. First and foremost, we need additional PPP and EIDL funds. In our case, these funds would allow us to hire additional academic specialists and tutors to give our kids a chance to become stronger both mentally and physically. Second, we need to ensure that PPP loans do not have negative tax implications for small business owners. Finally, in events businesses like mine where facility rental alone costs \$36,000 per month, commercial rent deferrals or other rent assistance would be invaluable.

At every turn, my business seeks to provide for our community, as do most small businesses throughout the country. The response to this pandemic is first and foremost about protecting lives, but it must also focus on protecting livelihoods, including those of small businesses.

Chairman RUBIO. Thank you so much. Ms. Williams.

**STATEMENT OF DAFINA WILLIAMS, SENIOR VICE PRESIDENT,
PUBLIC POLICY, OPPORTUNITY FINANCE NETWORK, WASH-
INGTON, DC**

Ms. WILLIAMS. Good morning, Chairman Rubio, Ranking Member Cardin, and members of the Committee. I am pleased to testify today about why community development financial institutions, CDFIs, must be central to the Federal Government's strategy for reaching very small and minority-owned businesses. These businesses cannot afford for CDFIs to be an afterthought and public policies addressing the economic crisis brought on by COVID-19.

The Paycheck Protection Program experience demonstrated that when CDFIs are empowered with supportive policies and adequate capital, they outperform other lenders. PPP has been a critical lifeline to save businesses and jobs. Opportunity Finance Network supports an extension of this program.

Through the initial iteration of PPP, business owners, lenders, and policymakers also learned some lessons. Who your lender is matters. There are gaps in our financial system that lock people out. Too many of our minority-owned, women-owned, and rural businesses are unbanked and underbanked. If we want Federal relief to reach these small businesses, we must reach the lenders who understand and are working in these markets, CDFIs. As specialized lenders that focus on underbanked communities, CDFIs are uniquely poised to deliver Federal relief to underestimated businesses. We reach communities that other lenders do not. Our borrowers are 85 percent low income, 58 percent people of color, 48 percent women, and 26 percent rural.

Thankfully, there has been bipartisan recognition that leaving CDFIs out of PPP meant many CDFI customers were left out too. OFN has greatly appreciated ongoing efforts from this Committee, Congress, SBA, and Treasury to modify the program as challenges arise, and these changes, including the \$30 billion carveout for community financial institutions in Round 2, and the \$10 billion CDFI set-aside, plus dedicated access to SBA's platform for small lenders were effective.

CDFIs made more than 114,000 PPP loans, totaling more than \$7.5 billion. Our average loan size was about \$65,000. For example, Latino Economic Development Center participated in the second round of PPP and deployed 109 loans totaling more than \$2.2 million to businesses in D.C., Maryland, Virginia, and Puerto Rico. Their average loan size was about \$20,000.

Orlando, Florida-based BBIF made 200 PPP loans totaling more than \$7 million, that retained more than 1,300 jobs. The average loan size was about \$36,000, and 86 percent of their PPP loans went to ethnic minorities, including 67 percent to Black business owners.

And there are stories like this from CDFIs across the country, demonstrating that these small loans are critical to saving thousands of jobs.

As CDFIs, our priority is one that I know is shared with the members of this Committee, that PPP must help our Main Street

businesses that are the backbones of our communities survive this pandemic.

OFN is pleased to see Congress poised to include another round of PPP funding in the COVID relief bill. In the next round, we would like to see another set-aside for mission lenders, streamlined forgiveness for loans of \$150,000 or less, a minimum processing fee so that small loans are able to have their costs covered for lenders, addressing the issues of tax treatment and the deduction of EIDL advances that are stressing borrowers.

For example, Universal Logistics, a women- and minority-owned trucking company, based in Glen Burnie, Maryland, received a \$20,000 PPP loan from LEDC. However, because of the deduction of the EIDL advance from her PPP forgiveness, she now has an unexpected \$9,000 loan to repay. Other CDFI clients that expected fully forgiven loans are facing that same reality.

We are pleased to see many of these fixes in the framework for the HEROS Small Business Lifeline Act and the bipartisan Emergency COVID Relief Framework. With these fixes in place, CDFIs stand ready to make a new round of PPP loans and deliver other Federal relief to small businesses. But we need capital and capacity to meet borrower needs. CDFIs need a new infusion of equity capital, and we were pleased to see a bipartisan framework for the COVID relief package include \$12 billion for CDFIs, including \$2 billion for rapid response grants in the industry.

This institutional-level capital will enhance our capacity to support our most vulnerable businesses and communities, both as part of PPP but beyond into the recovery. Focusing on reaching unbanked and underbanked businesses through the mission lenders that are best equipped to serve them will ensure a more equitable recovery.

Thank you for the opportunity to testify today, and I look forward to your questions.

[The prepared statement of Ms. Williams follows:]



Testimony of Dafina Williams
Senior Vice President, Public Policy, Opportunity Finance Network
Provided to the Senate Committee on Small Business and Entrepreneurship
December 10, 2020

Thank you for holding this hearing entitled: "Small Business in Crisis: the 2020 Paycheck Protection Program and its Future." My name is Dafina Williams, Senior Vice President of Public Policy at Opportunity Finance Network (OFN). I am pleased to be here today to testify about community development financial institutions (CDFIs) role as essential partners in helping the Paycheck Protection Program (PPP) and other federal relief reach underserved businesses.

OFN is a national network of CDFIs mission-driven community development banks, credit unions, loan funds, and venture capital funds investing in opportunities that benefit low-wealth communities across America. As specialized lenders that focus on underbanked communities, CDFIs are uniquely poised to deliver federal relief resources to businesses owned by people of color, very small businesses, and other under-resourced businesses in urban, rural, and Native communities.

For nearly 40 years, CDFIs have provided responsible, affordable capital where it is needed most: CDFI customers are 85 percent low-income, 58 percent people of color, 48 percent women and 26 percent rural.¹ Nationwide, the more than 1,100 CDFIs certified by the US Treasury Department's CDFI Fund manage more than \$222 billion. CDFIs are also experienced small business lenders with deep expertise reaching low wealth markets. In fiscal year (FY) 2019, certified CDFIs had more than \$24 billion of small business and microloans in their portfolios.² With cumulative net charge-off rates of less than 1 percent, CDFIs lend prudently and productively in markets underestimated by mainstream banks.³

CDFIs as Financial First Responders

From the first days of the COVID-19 pandemic, CDFIs understood the threat facing their borrowers. As soon as the mandatory business closures and social distancing began, CDFIs reached out to their customers offering whatever accommodations they could to ease the economic disruption: principal and interest payment deferrals, emergency loans, loan modifications, and other emergency responses or new products to help borrowers weather the crisis.

The CDFI industry has been able to quickly respond because of deep experience leaning in during times of crisis. From natural disasters, such as hurricanes Katrina, Sandy, Maria, and Harvey, to the 2008 financial crisis and the aftermath of 9/11, CDFIs have a strong record of stepping in as the financial first responders to support families and communities in their survival and recovery efforts. CDFIs are able to weather times of economic uncertainty through a combination of strong balance sheet management, deep ties with their local communities, and public and private sector partnerships.

Paycheck Protection Program's Limited Reach in Underserved Markets

Earlier this year, CDFIs were eager to become lenders under the federal government's flagship small business relief program, the PPP. Despite a proven track record of reaching the very communities that Congress prioritized through the Coronavirus Aid, Relief, and Economic Security

¹ Opportunity Finance Network, "Impact Performance", <https://ofn.org/impact-performance>

² Opportunity Finance Network, 2019 CDFI Fund Annual Certification Reporting Database", Accessed November 19, 2020.

³ Opportunity Finance Network, "Impact Performance", <https://ofn.org/impact-performance>



(CARES) Act — low-wealth communities, women, veterans and business owners of color — most CDFIs were initially sidelined as PPP lenders.

As PPP unfolded, it was apparent that for small businesses, lenders matter. The program's initial reliance on existing banking relationships with mainstream financial institutions disadvantaged very small, women- and minority-led businesses who often do not have relationships with a traditional lender. For example, research from the Federal Reserve found that less than one quarter of Black-owned employer firms had a recent borrowing relationship with a bank. For Black-owned non-employer firms, only 1 in 10 had a recent borrowing relationship.⁴

This structural disadvantage impacted borrowers: research from the National Community Reinvestment Coalition (NCRC) found that banks asked more questions and requested more information up front from Black or Latinx business owners compared to white business owners when seeking PPP financing — even when the Black or Latinx business owners had stronger applications.⁵ In addition, a report by Color of Change and UnidosUS found that 51 percent of Black and Latinx small business owners surveyed had applied for PPP loans of less than \$20,000. Only 12 percent said they received the full amount of assistance requested. More than three times that number — 41 percent — were denied assistance.⁶

The Brookings Institute analysis of access to PPP loans in majority-minority neighborhoods found that on average, it took 31 days for small businesses with paid employees in majority-Black ZIP codes to receive PPP loans—seven days longer than those in majority-white communities. For non-employer businesses, the loan delay between majority-Black and majority-white neighborhoods grew to nearly three weeks.⁷ Part of the lag was that independent contractors and sole proprietors were not eligible to apply for PPP loans until April 10, just days before the first round of program funds were depleted.⁸ This delay was potentially catastrophic for minority owned small businesses, which tend to have less than two weeks of cash on hand,⁹ and especially for the more than 95 percent of black owned businesses that are sole proprietorships.

⁴Claire Kramer Mills and Jessica Battisto, "Double Jeopardy: Covid-19's Concentrated Health and Wealth Effects in Black Communities", New York Federal Reserve Bank. Published August 2020. Accessed December 7, 2020. https://www.newyorkfed.org/medialibrary/media/smallbusiness/DoubleJeopardy_COVID19andBlackOwnedBusinesses

⁵National Community Reinvestment Coalition, "Lending Discrimination Within the Paycheck Protection Program", Published July 15, 2020. Accessed December 6, 2020. <https://ncrc.org/lending-discrimination-within-the-paycheck-protection-program/>

⁶Color of Change and Unidos US, "First COVID-19 Survey of Black and Latino Small-Business Owners Reveals Dire Economic Future", Published May 18, 2020. Accessed December 6, 2020. <https://theblackresponse.org/wp-content/uploads/2020/05/COC-UnidosUS-Abbreviated-Deck-F05.13.20.pdf>

⁷Sifan Liu and Joseph Parilla, "New data shows small businesses in communities of color had unequal access to federal COVID-19 relief", The Brookings Institution, Brookings Metro COVID-19 Analysis Series, Published September 17, 2020. Accessed December 6, 2020. <https://www.brookings.edu/research/new-data-shows-small-businesses-in-communities-of-color-had-unequal-access-to-federal-covid-19-relief/>

⁸Elaine Pofeldt, "COVID-19 Aid to Small Business Owners Trickles Out as SBA Clarifies CARES Act Rules for Sole Proprietors", Forbes. Published April 15, 2020. Accessed December 6, 2020. <https://www.forbes.com/sites/elainepofeldt/2020/04/15/covid-19-aid-to-small-business-owners-trickles-out-as-sba-clarifies-cares-act-rules-for-sole-proprietors/?sh=4d6a61417495>

⁹Lauren Leatherby, "Coronavirus Is Hitting Black Business Owners Hardest", New York Times, Published June 18, 2020. Accessed December 7, 2020. <https://www.nytimes.com/interactive/2020/06/18/us/coronavirus-black-owned-small-business.html>



Despite the CDFI industry's expertise in lending to minority-owned, very small, and other disadvantaged businesses, CDFIs were underestimated and underutilized in the early days of PPP. The impact of excluding CDFIs was clear: PPP relief funds could not reach small business borrowers without reaching their lenders. The intention of PPP was to help small businesses survive during the pandemic, but the initial execution left out millions of businesses. Very small businesses and nonprofit organizations had difficulty in the early weeks of the program finding a lender to process their PPP applications because they did not have a preexisting relationship with banks. CDFIs were able to bring more businesses into the fold but for some it was too little, too late.

Program Adjustments Increase CDFI Participation

After a rocky start, Congress, the Small Business Administration (SBA) and the Department of Treasury made changes to the program that increased CDFI participation. These changes include a set aside of PPP lending authority for CDFIs, access to SBA systems for small lenders, lowering barriers to entry for non-depository lenders, and access to the Federal Reserve's PPP lending facility. These program adjustments allowed CDFIs to take a larger role in PPP lending:

- PPP set-asides for CDFIs - In the PPP and Health Care Enhancement Act (P.L. 116-139), Congress directed SBA to create a \$30 billion set aside for PPP loans made by "community financial institutions", which included CDFIs.¹⁰ In late May, the SBA announced a dedicated \$10 billion set-aside specifically for CDFIs. These set asides were critical to CDFIs and their customers.

The "first-come, first-served" model disadvantaged business owners who needed additional time to prepare their PPP loan applications. Many of these borrowers turned to a CDFI once more CDFIs became eligible PPP lenders. The set-asides enabled lenders to appropriately assist their clients, who often do not have ready access to accountants or tax professionals and require technical assistance to prepare PPP applications.

- Dedicated access to E-Tran for small lenders - In late April, the SBA provided a brief window of limited access to the SBA's e-tran system to lenders with less than \$1 billion in assets. This was another important opportunity for CDFIs to process their loans and have access to the SBA systems without directly competing with thousands of other PPP lenders, including those with longstanding SBA relationships.
- Lower barriers to entry for nondepository lenders - On April 30, Treasury dropped the lending volume threshold from \$50 million to \$10 million, opening access to more CDFI lenders. However, that action was taken more than a month after the program opened. Easing that requirement earlier in the process would have allowed more CDFIs to become PPP lenders and serve additional customers, especially in the early days of the program when demand was extremely high.
- Access to the Federal Reserve's PPP facility for nondepository lenders - On April 30, the Federal Reserve also opened access to its PPP facility to non-depository CDFIs, helping CDFIs access liquidity to support their PPP lending. Some CDFIs were able to access the facility by developing correspondent relationships with depository institutions that have master accounts with the Federal Reserve. However, the process was delayed and complex, limiting access to liquidity at a critical time when CDFIs needed it most. CDFIs would also

¹⁰ Public Law 116-139, Paycheck Protection Program And Health Care Enhancement Act, April 24, 2020, <https://www.congress.gov/116/plaws/publ139/PLAW-116publ139.pdf>



have benefited from the CARES Act provision authorizing SBA to purchase PPP loans directly from lenders but was never implemented.

CDFIs Outperformed Peers as PPP Lenders

The regulatory changes and set-asides in place for the second round of PPP funding allowed CDFIs to ramp up their PPP lending. CDFIs showed remarkable success as PPP lenders, outperforming much larger and better capitalized lenders to provide more than \$7.5 billion in PPP loans in just a few short months.¹¹

SBA data shows that on average, loans made by CDFIs were significantly smaller than those made by other lenders. Based on the SBA's data, the average PPP loan size for CDFIs was about \$65,000, approximately 35 percent smaller than the average loan size for all PPP lenders. In the second round of funding, average loan size for CDFIs was even lower at \$43,000. Some CDFI PPP lenders report making loans of less than \$1,000. CDFI PPP lenders served not only their existing customers, but also the small businesses and nonprofit customers that lacked the banking relationships often needed to access PPP.

The following are examples of CDFI PPP lending:

- Washington, DC-based Latino Economic Development Center participated in the second round of PPP and deployed 109 loans totaling \$2.2 million to businesses in DC, Maryland, Virginia, and Puerto Rico. Their clients' average PPP loan size was just slightly over \$20,000.
- Orlando, Florida-based BBIF made a total of 200 PPP loans totaling more than \$7.2 million that retained 1,333 jobs. The average loan size was \$36,194. BBIF approved PPP loans throughout the state of Florida to diverse small business owners: 86 percent of their total PPP loan recipients are ethnic minorities and 67 percent are black business owners. Ninety percent of their PPP were made to new customers that had not worked with BBIF before.
- Missoula, Montana-based MoFi made 1,270 PPP loans totaling \$33.1 million with an average loan size of \$26,000. Loans were made in five states: \$13.8 million in Idaho (42 percent), \$8.9 million in Montana (27 percent), \$3.4 million in Oregon (10 percent), \$4.3 million in Washington state (13 percent) and \$2.6 million in Wyoming (8 percent). Forty-two percent of PPP loans were made in Idaho totaling \$13.8 million. MoFi made more loans to businesses this year than in the past 15 years combined. The vast majority of MoFi's borrowers were struggling to access PPP loans at a bank or credit union. Banks referred businesses they could not serve: one local bank in Idaho referred nearly 150 borrowers to MoFi, while a regional bank in Montana referred nearly 50 borrowers.
- St. Louis, Missouri-based Justine Petersen, closed 436 PPP loans, totaling \$14.8 million, with 74 percent of loans made to small businesses of color, 62 percent of loans to female headed small businesses, and 71 percent to businesses in low- and moderate-income communities. The CDFI also created an online portal to expedite the forgiveness stage of the program. The portal allows documents to be uploaded, easing the labor investment required to process the forgiveness applications.
- San Jose, California-based Opportunity Fund and four of their partners offered PPP loans to new and existing customers. A total of 1,160 small businesses were approved for PPP loans

¹¹ Small Business Administration, "Paycheck Protection Program (PPP) Report Approvals through 08/08/2020". Published August 10, 2020. Accessed November 18, 2020. https://www.sba.gov/sites/default/files/2020-08/PPP_Report%20-%202020-08-10-508.pdf



totaling \$17.96 million with \$14 million of those loans funded directly by Opportunity Fund. Opportunity Fund received more than 2,100 PPP applications requesting \$46 million in funding before the program expired in August.

- Durham, North Carolina-based Self-Help Credit Union made 1,758 PPP loans totaling \$183 million with a median loan size of \$21,000. Fifty-nine percent of loans were made to businesses or nonprofits led by people of color. These PPP loans saved 19,895 jobs.
- Jackson, Mississippi-based Hope Credit Union made 2,587 PPP loans totaling \$81 million to small businesses across the Southeast that saved more than 10,000 jobs. The average loan size was less than \$30,000 and the median loan size was around \$11,000. The majority of loans were made to businesses owned or led by people of color or women, with nearly 40 percent of their PPP loan dollars reaching persistent poverty communities. Prior to PPP, Hope originated about 50 business loans in a year. At their PPP lending peak, nearly half of Hope's staff was dedicated to PPP lending, with many providing small borrowers with much needed technical assistance.
- Chicago, Illinois-based IFF partnered with another CDFI, Minneapolis-based Community Reinvestment Fund to deploy PPP loans. The organizations committed \$50 million of their own liquidity to ensuring PPP loans were made to smaller nonprofits, nonprofits serving lower-income communities, and nonprofits led by or serving people of color throughout the Midwest.

Challenges Remain for PPP Lenders and Borrowers

The PPP has been a valuable lifeline to the businesses able to secure access, but challenges continue for both lenders and borrowers:

- Loan forgiveness process - As the first wave of PPP loans became eligible for forgiveness earlier this fall, the SBA's forgiveness platform was not ready to begin accepting applications. For weeks, tens of thousands of applications languished in the system with little information available to lenders or borrowers about their status. Once the platform opened and applications were accepted, there were delays in processing applications and remitting payments to lenders. In recent weeks, SBA has made improvements to their systems and processes, and forgiveness applications are being processed.

As the volume of forgiveness applications ramps up, a backlog at SBA could cause substantial delays in the processing of those applications. The SBA's implementation of 3508S, the streamlined forgiveness form for loans of \$50,000 or less, is an important step in the right direction to simplifying the forgiveness process. Streamlined forgiveness for smaller loans of less than \$150,000 that rely on documentation already submitted during the application process would further ease cost burdens for lenders and borrowers.

- Fee structure encourages larger loans - One of the reasons borrowers seeking the smallest loans received less consideration from lenders is because the fee structure created incentives to make larger loans. Even though fees were designed to decrease as loan size increased, there was still an incentive to make larger loans to maximize fee income. For example, a \$50,000 PPP loan would generate a five percent fee of \$2,500, while a \$350,000 PPP loan would generate a five percent fee of \$17,500, and a \$1 million PPP loan would generate a three percent fee of \$30,000. Adjustments to the fee structure could spur more small dollar PPP lending.



- **Unanticipated costs for lenders** - A record amount of PPP loan production from all lenders, including CDFIs, means increases in staff time and costs, technological upgrades, and additional documentation and recordkeeping. The delayed forgiveness process also means that lenders are incurring costs of servicing PPP loans for longer than anticipated as well as costs related to providing borrowers with support needed to navigate the complex forgiveness process.
- **Unanticipated costs for borrowers** - CDFIs in OFN's network report that borrowers are facing potential unanticipated PPP costs:
 - **Deductibility of business expenses** - While there is clear guidance that forgivable PPP loans are not taxable, the recent IRS ruling that business expenses paid for with PPP loans are not tax deductible has left some business owners concerned they could be facing a hefty tax bill next spring.
 - **Deduction of Economic Injury Disaster Loan (EIDL) advances** - The requirement that EIDL grant proceeds must be deducted from the forgivable amount of PPP loan has left some borrowers who anticipated a fully forgiven loan with unanticipated debt when they can ill afford it.
- **Delayed Guidance** - Since the program's inception, the rules put forth by SBA and Treasury changed constantly, creating confusion for borrowers and lenders alike. Such inconsistent guidance, especially around issues of loan forgiveness and tax issues, has created hesitation and impacted demand for PPP loans from small business owners.

Significant Additional Federal Investment Needed to Support Small Business

The PPP was an important first step in addressing some of the challenges facing small businesses, but more must be done. The federal relief small businesses received from PPP and the CARES Act Section 1112 debt relief payments has expired. New relief funds are needed quickly to prevent widespread business closures that will have lasting negative economic impacts. The risks are especially acute for businesses owned by people of color – 41 percent of Black businesses and 32 percent of Latinx businesses have permanently shuttered this year.¹²

Relief efforts should be targeted to reach the most vulnerable businesses to ensure a more inclusive economic recovery. Federal programs that do not reach businesses owned by women, people of color, rural businesses, and other underbanked business must be refocused.

The following are recommendations that will help ensure new federal resources reach the intended communities by enhancing the capacity of CDFIs to support the economic recovery. Many of these recommendations have been addressed through Senator Cardin's HEROES 2.0 Small Business Lifeline Act (S.4818):

- **Emergency Appropriations for the CDFI Fund** - OFN is especially pleased to see HEROES Small Business Lifeline Act invest in the mission- and community-based lenders that have a demonstrated history of getting capital to minorities, women, and other underserved communities. In particular, the \$1 billion in emergency grant funding for the CDFI Fund is critical to ensuring CDFIs are an integral part of any federal relief and recovery

¹² Robert Fairlie, "The Impact of Covid-19 on Small Business Owners: Evidence of Early Stage Losses from the April 2020 Current Population Survey", Stanford Institute for Economic Policy Research, Published May 23, 2020. Accessed December 6, 2020. <https://siepr.stanford.edu/sites/default/files/publications/20-022.pdf>



effort. The federal government must increase the supply of capital to mission lenders like CDFIs, who are adept at channeling those resources into distressed communities. More investments at this scale are needed to enable CDFIs to step up and meet the economic challenges facing our communities.

This investment will also broaden the reach and impact of the federal government's investments. While the PPP set-asides were critical in helping capital flow to small business owners impacted by the pandemic, only a small subset of CDFIs were able to become PPP lenders, and they used their own lending capital to make PPP loans to small business customers. SBA pays a small servicing fee to PPP lenders for each loan they make, but the funds for the loan itself comes from the PPP lender.¹³ PPP loans are a short-term, focused solution to meet an immediate small business need, not a substitute for critical equity capital CDFIs need to support the medium- and long-term economic recovery. CDFIs are well positioned to respond to the financial needs of low wealth markets but need their own balance sheets to be stable in order to contribute to the economic recovery. This balance sheet stability is essential to allow CDFIs to continue to leverage private and philanthropic resources.

- **Restructure and reform PPP** – OFN urges Congress to restructure and reform the PPP with a focus on reaching the most underserved small businesses. With programmatic fixes to make the program work better for businesses and lenders, new PPP funding could provide a critical bridge to businesses struggling to survive. Although there were funds left over when the program ended, the economic outlook has shifted since August. Businesses that were able to survive a few months ago and might have forgone applying for a PPP loan are now facing a very different financial reality.

OFN supports the following provisions in HEROES 2.0 (S.4818):

- extend PPP through March 2021 to create set-asides for first-time PPP loans to businesses with 10 or fewer employees, sole proprietors and the self-employed, nonprofits, and for loans less than \$250,000 to businesses located in low- to moderate-income (LMI) areas.
- second draw PPP loans for hard-hit businesses
- \$15 billion PPP set-aside for CDFIs, Minority Depository Institutions (MDIs), and other mission lenders.

OFN also supports the provisions that:

- expand eligibility to all nonprofits, regardless of size and type
- simplifies the forgiveness process
- repeals the requirement of deducting an EIDL advance from the PPP forgiveness amount
- removes limitations that restrict small businesses owned by formerly incarcerated individuals from securing a PPP loan.

Finally, OFN urges Congress to change the PPP fee structure to a flat fee to ensure that lenders, who are now fully realizing the costs associated with participating in the PPP program, can continue to make smaller loans and provide the technical assistance needed to navigate the application and forgiveness process.

¹³ Small Business Administration, "Paycheck Protection Program Interim Final Rule", Issued April 2, 2020. <https://www.sba.gov/document/policy-guidance--ppp-interim-final-rule>



- **Extend and expand the Section 1112 CARES Act debt relief program** - The SBA's debt relief program was a critical lifeline for many CDFIs and their borrowers. The six months of payments eased borrower's debt burden while the SBA's payments of interest and fees to lenders helped relieve stress on balance sheets from lost revenue. For some CDFIs, this additional capacity enabled them to offer their own emergency loan products or administer state and local aid programs. OFN strongly supports the provisions in HEROES 2.0(S.4818) that extends payments of principal, interest, and fees on all pre-existing and new SBA 7(a), 504 and microloans for up to a year, with more relief targeted to existing borrowers in underserved markets and the hardest-hit sectors, and expanding the relief to SBA's physical and EIDL disaster loans.
- **Direct SBA resources to small businesses located in low-wealth markets or owned by historically underestimated groups** - Congress should make improvements to the SBA's core programs, including 7(a), Community Advantage, 504, and the Microloan program. To survive the pandemic, businesses will need access to responsible, affordable loans, credit enhancements, and working capital in addition to PPP's payroll support. Programs that prioritize CDFI participation like the 7(a) Community Advantage program and the SBA Microloan program are more successful at reaching underserved businesses, especially businesses owned by women and people of color. Enhancing CDFI participation and making improvements to these programs will help reach more underbanked businesses.

OFN supports the provisions of HEROES 2.0 related to the SBA Microloan and Community Advantage programs that would:

- temporarily increase the amount of time that borrowers can repay their loans from 6 to 8 years.
- temporarily increase the outstanding aggregate amount each intermediary may borrow from \$6 million to \$10 million.
- temporarily waiving the matching requirements for the technical assistance grants and the 50 percent limitation on pre-loan technical assistance.
- increase to 90 percent the loan guarantee amount on 7(a) loans, including for Community Advantage loans, until October 1, 2021.

CDFIs are Essential to an Inclusive Economic Recovery

CDFIs are critical intermediaries that build financial infrastructure to deliver capital to businesses and communities that need it most. But the work of CDFIs is not done alone: partners like the federal government remain vital to continuing the powerful work of mission driven lenders. Investments in proven solutions and programs that support the work of CDFIs will stimulate are also a smart investment for the federal government: small amounts of public subsidy are leveraged to amplify its impact.

The nation's small businesses cannot afford for CDFIs to be an afterthought in public policies addressing the economic crisis brought on by COVID-19. The PPP experience demonstrated that when CDFIs are empowered with supportive policies coupled with capital at the beginning of any relief program effort or in a sustain capacity, they outperform other lenders. With targeted resources from the public sector and partnership with CDFIs, our country's small business sector can weather the pandemic and recover to thrive. Focusing on reaching unbanked and underbanked businesses through the mission lenders that are best equipped to serve them will ensure a more equitable recovery.

Thank you for the opportunity to speak with you today. I look forward to your questions.

Chairman RUBIO. Thank you. And finally, Mr. Zernick. Mr. Zernick, make sure your audio is turned on, please.

STATEMENT OF THOMAS G. ZERNICK, PRESIDENT OF SBA LENDING, FIRST HOME BANK, ST. PETERSBURG, FL

Mr. ZERNICK. Thank you, Mr. Chairman. Tens of thousands of small businesses have permanently closed due to COVID-19, and more are closing each day. In the Tampa Bay area, 22 percent of small businesses operational in January are now gone, and nationwide, 25 percent of small businesses have been shuttered. Surviving businesses have lost 21 percent of revenues, on average. So, by definition, small businesses have been adversely affected by COVID-19.

The PPP, which provided two and a half months of payroll and modest operating expenses was a lifesaver for many small businesses. But that was nine months ago, and the pandemic is far from over. PPP Round 1 has proven not to be enough.

As Congress deliberates the next relief package, I would like to offer three recommendations. First, we need no-cost fixes to help borrowers and lenders through the first round of PPP and ensure participation in a second round. The CARES Act had to be drafted and implemented at warp speed, but with lessons learned we need to address the issues we have lived through so PPP can work better. Specifically, Congress should simplify the Round 1 forgiveness process to create an appetite for Round 2.

Repeal the requirement to deduct EIDL advances from the forgiveness amount so borrowers are not left with unanticipated debt and lenders are not left with thousands of loans of \$10,000 or less.

Strengthen lender hold-harmless provisions to clarify lenders' liability.

Allow reapplications for loans inadvertently repaid or canceled, and provide a reinstatement process to adjust loan size if there was an error, and broaden the eligible use of proceeds.

These are just some, not all, of the no-cost fixes we need. Individually, these fixes may seem small, but together they would make the program substantially more palatable. And while you consider these fixes, please remember, lenders are slogging through 5.2 million forgiveness applications without clear guidance, and given the onerous process, borrowers are concerned they will face unexpected debt they cannot afford. Unless Congress addresses these implementation issues, there will be many lenders unwilling to participate in a Round 2. Failing to make reasonable program changes would be a tragedy.

Next, we need long-term small business recovery initiatives immediately. PPP provided emergency short-term relief for America's workers, not long-term recovery for the small businesses. While PPP is the most innovative approach to supplementing unemployment insurance this country has seen, it does not assure that small business will survive these difficult times.

A serious recovery package needs to support the small itself. Small businesses need long-term working capital available through the 7(a) program. During the Great Recession, I experienced the benefits of an increased SBA guarantee, borrower and lender fee waivers, and an increased authorization cap. These provisions,

among others, would once again increase the flow of capital to small businesses. Without 7(a) program enhancements, the millions of employees we worked so hard to keep on payroll, using PPP, may not have an employer to go back to.

Finally, Congress needs to use existing funding to extend the hugely successful Section 1112 payments. Now that most of the 6-months of these payments are ending, banks like mine are being inundated with payment deferral requests. This should not be a surprise. Economic conditions for most borrowers have not improved since March. Borrowers in the traditional SBA programs must pass needs-based tests to be eligible for SBA loans, so by definition, borrowers receiving Section 1112 payments are among the most vulnerable small businesses in the country and exactly the entities we should be helping.

Congress must include Section 1112 payment extensions and other related technical fixes immediately, including making the payments non-taxable. Otherwise, I fear that we will see more borrower loan defaults, as they struggle to make payments. This will cause significant stress on the SBA portfolios, rather than taking advantage of the already-funded Section 1112 preventative relief.

In closing, my experience tells me that the best path forward for the next relief package is one that does not merely rely on a second round of PPP, but rather includes the full range of my comprehensive recommendations. I am encouraged by the proposals that take this holistic approach and include 7(a) enhancements and Section 1112 extensions for long-term recovery alongside PPP for short-term emergency relief.

Thanks for this opportunity to share my thoughts. I look forward to your questions.

[The prepared statement of Zernick follows:]

Thomas G. Zernick, President of SBA Lending
First Home Bank

“Small Business in Crisis: The 2020 Paycheck Protection Program and its Future”

Chairman Rubio, Ranking Member Cardin, and Members of the Subcommittee—my name is Tom Zernick and I am the President of First Home Bank’s SBA lending division named CreditBench. I began working on SBA loans over 30 years ago and today manage a team of 60 dedicated CreditBench individuals. Last year, Credit Bench, a nation-wide lender, was a top-10 producer in both volume and units, and the number one lender in the country in volume for 7(a) loans under \$350,000. Prior to PPP, First Home Bank was a \$600 million community bank that grew to \$1.5B in assets due to our PPP loan originations, taking advantage of the PPP Liquidity Fund to obtain the necessary liquidity to fund this explosive asset growth. As a relatively small community bank, my institution supported 8,947 businesses around the country and funded \$876 million in PPP loans, directly impacting approximately 105,000 jobs. Please see the Exhibit A attachments that demonstrate some of our PPP recipient’s appreciation for the PPP loan program.

I am honored to testify today as a longtime, successful SBA lender who knows first-hand what it is like to deliver PPP loans. I appreciate this opportunity to hopefully provide a voice of reason on behalf of my lender peers and my small business borrowers struggling with the impacts of the COVID-19 pandemic. Nationally, lenders helped over 5.2 million businesses by funding over \$525 billion dollars of PPP loans. This was only possible because of the roughly 5,460 participating lenders that committed to serving small businesses through the PPP process. What an accomplishment during such difficult times.

I plan to focus my testimony on my boots-on-the-ground perspective of the success of PPP Round 1 and the difficulties associated with that success. On April 2nd our lives changed. We made a management decision to temporarily suspend regular 7(a) lending and dedicate our 60 CreditBench team members to the rollout of PPP. We drafted an additional 60 members from around the bank to ensure we had adequate resources dedicated to processing these loan requests. Our team, from our CEO to junior staff, worked countless hours, 7-days a week. We were building an Indy racecar while participating in the Indianapolis 500. The design blueprints seemed to change weekly through Interim Final Rules (IFRs), Frequently Asked Questions (FAQs), and policy notices.

While I understand the need for quick action to implement this emergency relief program, the lack of direction and clear and concise guidance that continues to plague the program has hindered our ability to efficiently handle the thousands of applications from small businesses coming from across the country. Our small business borrowers also have struggled through numerous burdensome and confusing elements of the program, and many are fearful that they are going to do the wrong thing which could result in either being at odds with the federal government or saddled with unexpected debt that they cannot afford.

Subsequently, both lenders and borrowers find themselves in the same position: worried that without certain common-sense, no-cost changes to PPP policy we will not be able to participate in a next round of PPP in the same way we did in the first round. Additionally, the assistance provided by PPP will not, by itself, be enough to see the small business economy through unprecedented times, and other long-term recovery measures that turn back to the traditional SBA loan programs should be considered. My testimony will touch on the simple ways in which Congress can ensure that both lenders and borrowers will feel more comfortable with participating in a next round of PPP and find opportunity in other recovery provisions focused on long-term recovery to see borrowers through the continued pandemic.

Simplified Forgiveness and Other Key PPP Fixes: Round 2 Must Look Different than Round 1

To date, lenders have not received clear guidance from the Treasury and the SBA on our role in the PPP forgiveness process. The complexity of the forgiveness process is causing delays for borrowers in obtaining loan forgiveness. Two of the most problematic areas include: 1) the determination of the covered period, and 2) the calculation of full-time employees (FTEs) required during the application process. Despite the numerous private-sector webinars made available to businesses explaining how PPP forgiveness works, our borrowers still find the

Thomas G. Zernick, President of SBA Lending
First Home Bank

process unreasonably burdensome and complex. Potential forgiveness reform for Round 1 PPP Forgiveness should consider an elimination of the covered period and the elimination of the FTE calculation. Furthermore, Treasury and the SBA should clearly define the lender's role in the forgiveness application process by clarifying that the borrower shall certify the forgiveness amount and that the lender is held harmless on the calculation of the forgiveness amount.

If we don't simplify the rules around the forgiveness calculations for PPP Round 1 and any subsequent round of PPP loans, lenders like us will be inundated with the task of processing applications without clarification or confidence in our role, and, as a result, find ourselves hesitant to participate as heavily in a next round of PPP because of continued confusion and burden.

In order to create capacity for lenders to originate Round 2 PPP loans, lenders need more simplified forgiveness application requirements. For example, borrowers with loans \$150,000 and less should be able to take advantage of a streamlined forgiveness process, and the lenders role in submitting these smaller loans for forgiveness should be simplified as well. Treasury and the SBA need to clearly state that lenders are not required to calculate the forgiveness amount, nor should lenders be required to independently certify the documents provided by the borrower in order to justify the amount of the loan forgiveness request certified by the borrower. These changes in the forgiveness application and process will free up lenders' staff that will allow us to actively participate in Round 2 of PPP while continuing regular 7(a) production efforts.

There also needs to be further PPP reform fixes that are no-cost policy enhancements so that a next round of PPP can work for both lenders and borrowers in the way I believe Congress intended. Some of these PPP policy fixes should include:

1. Repeal the provision that the EIDL advance amount is deducted from the eligible forgiveness calculation. We are finding out that in certain instances 100% of the loan amount are not being forgiven due to our customers having accepted an EIDL advance of \$10,000 or less;
2. Strengthen lender hold harmless provisions to help lenders better understand their role and responsibilities in the PPP process;
3. Prohibit the agencies from clawing back a lender's processing fee based on an after-the-fact determination of ineligibility, especially given the confusion around eligibility guidance;
4. Allow a borrower to reapply for a PPP loan if it repaid or cancelled the loan because it misunderstood the changing PPP implementing guidance but now has proper documentation to qualify for a PPP loan. This reinstatement process should also be available if the PPP loan was inadvertently cancelled. Also allow for the borrower to adjust its PPP loan size if the lender or borrower miscalculated or entered data incorrectly regarding the eligible loan amount while processing thousands of loans in an incredibly short period of time;
5. Enhance and broaden the eligible use of proceeds under PPP to include all eligible business purposes. While payroll protection is important, business survival is more important today. We need to give small businesses access to capital to fund all of their normal operating expenses, including paying business debt obligations, purchasing inventory, paying payables, and paying other expenses including payroll, rent, utility bills, etc.; and
6. Simplify the calculation of the PPP loan amount. For example, by using the applicant's business 2019 tax return, a loan amount could be easily calculated with 4-6 months of their average operating expenses. This would provide borrowers with 4-6 months of operating cash flow, allowing them to weather the storm until a COVID-19 vaccine is broadly distributed. The original PPP loan was an injection of cash sufficient to cover a 10-week payroll period. Nobody, including Congress, had any idea that this pandemic could last for 18 months or more. We could also receive three months of bank statements to prove the business is still in operation along with a certification from the applicant that it has been negatively impacted by COVID-19.

Thomas G. Zernick, President of SBA Lending
First Home Bank

These are just some of the many examples of key policy tweaks that could make both Round 1 and Round 2 of PPP loans achieve the desired objectives.

First Home Bank is committed to participating with the Treasury and SBA in funding Round 2 PPP loans. But, if Congress does not make changes to the implementation of PPP by eliminating hurdles and inefficiencies for borrowers and lenders, both at application and forgiveness, the PPP distribution chain during Round 2 could be significantly impaired by the lack of lender participation and unwillingness of businesses to navigate a complex program that presents too many hurdles. Simply administering Round 2 the same way we administered Round 1, without these reforms, in my opinion, would be a tragedy.

Long-term Recovery Measures in Traditional SBA Program Enhancements & Section 1112 Payment Extensions: A Critical Need for Small Business Borrowers and Lenders

The country finds itself at a pivotal moment--no longer are we only battling COVID-19, but we are also battling against the clock to save Main Street America. Swift action is necessary to save these small businesses and the solutions lie not only in short-term PPP loans, but also in long-term recovery measures. It is imperative that we focus attention on enhancing and stabilizing SBA's flagship 7(a) loan program. It is the 7(a) loan program that has always played a critical role in access to capital for small businesses during good times and bad.

First, I urge Congress to include a series of common-sense, low-cost enhancement provisions to the 7(a) loan program in order to encourage continued access to long-term working capital for small businesses—a critical tool to any economic recovery effort. During the Great Recession from 2009 to 2011, I experienced firsthand the benefits of lending and managing SBA loan production under an increased 90% SBA guarantee coupled with program fee waivers for lenders and borrowers. These provisions and others allowed my bank and those of my peers to facilitate access to capital for borrowers that was not available through conventional means to the small business community, and undoubtedly increased the ability for our institution to reach even more borrowers than we would have been able to without these program enhancements during those difficult economic times. The uncertainty we are facing with this pandemic goes far beyond the capital crisis faced during the 2009 recession. I encourage you not to overlook the importance of including these types of long-term recovery measures in any next relief package.

In addition, Congress needs to extend the Small Business Debt Relief payments that were created by Section 1112 of the CARES Act—a no-additional-cost provision given the amount of already funded dollars that remain available. Section 1112 provided six months of payments for all existing and new borrowers in the traditional SBA loan programs, including 7(a), providing vital, tangible, and quick relief to borrowers. Not only did these payments provide stability to the 7(a) loan portfolio, but they also provided an impactful stimulus for new lending, as well. Now that the majority of the six months of Section 1112 payments are coming to a close for our borrowers, my bank is starting to become inundated with deferral requests from SBA borrowers who simply cannot make their payments given that the economic conditions for most of these borrowers remain unchanged since March. The inability to make loan payments and meet other operational expenses will force many small businesses across the country to close their doors permanently. These payments are all the more critical because the small business borrowers in the traditional SBA programs are different from PPP borrowers in that the traditional loan programs require significant needs-based assessments for program eligibility, with the result being that regular SBA borrowers are some of the most vulnerable small businesses in the country. In short, these are exactly the borrowers we should be helping the most right now. I strongly recommend that Congress include Section 1112 payment extensions in any next package aimed at providing relief to the small business economy, with such extension ongoing for a period sufficient for the virus to be eliminated as a significant threat to these businesses. Otherwise, I am fearful that in the following months and years, the government will start to see significant stress on their SBA government guaranteed portfolios and will pay the price through backing increased defaults, rather than taking advantage of the already funded Section 1112 preventative relief.

Thomas G. Zernick, President of SBA Lending
First Home Bank

Thank you so much for allowing me the opportunity to provide you a boots-on-the-ground observation on the successes of PPP and the difficulties created by these successes. My suggestions on reform are intended simply as a means to increase the availability of access to capital for small businesses as quickly and efficiently as possible. We appreciate all the hard work that Congress, the SBA, and the Treasury have undertaken and stand ready to actively participate in Round 2 PPP and traditional SBA lending given what we hope will be a relief package that strikes the necessary balance between thoughtful fixes to PPP and long-term recovery measures. First Home Bank looks forward to continuing its leadership in serving the small business community.

Exhibit A

I just wanted to thank you. You guys are freaking rock stars and obviously working around the clock to help us. Thank you so much! This is a super scary time for us as business owners and I am glad to know that we might be able to salvage something we've worked so hard to build.

-Unnati Patel Hall | Owner



Tom,
I wanted to take a second to thank you for making the application process for the PPP loan so straightforward and easy. I'm a BofA customer and just found out this morning that since I don't have a loan with BofA they will not process the loan for me. A friend of mine sent you link to me and I was able to apply quickly. After so much distress caused by BofA its a pleasure to see someone take other people's business seriously. My employee's thank you!

BTW... I will soon be moving my business away from BofA due to their self-serving behavior during this trying time. First Home Bank may well be where we land.



Thank you so much Tom I am super grateful and want to keep my employees employed!

Thank you,

David T. Aronberg, Esq.
Aronberg, Aronberg & Green, Injury Law Firm

Hello Tom,
I am collaborating with a few small business owners and I have directed them to your website to apply for the PPP. I would like to let you know that you are 1 of a few lenders in the area that would even respond back let alone provide a seamless application process. THANK YOU SO MUCH FOR THIS.

I know your website is probably bombarded by applications and so we wanted to know when do you think we will have a response on the application?

Thanks again!
Viera Vorasarn
Realtor

THB FIRST HOME BANK

CREDIT BENCH
Powered By First Home Bank

Tom and Team,
I wanted to THANK YOU for making it such a streamlined and easy process to apply for PPP. Bank of America, the bank we've done business with the last few years, is creating major obstacles, and you are a breathe of fresh air. When this passes we will happily be moving all of our business relationships to First Home.

I just completed the application. Let us know if you need anything further!

Best,
Ryan Ayotte
Simple Skiff Beverages, LLC

Cheryl,
Without your long hours and commitment to helping as many businesses as possible, we would not have survived the stress of PPP. I hope you know how much I appreciate you. You are and were responsive and kind. I never thought we would communicate after 9:00 at night but there you were diligently doing all you could. AMAZING

There were other folks in your bank who helped us but their work was done in more anonymity.

Please let everyone on the team know that I am grateful.

Once we can get back under single roofs I would like to find a way to move some business to your bank. Although there is a local office my bank here totally failed each and every one of their business customers. First Home bank stepped up.

Warm regards,
Dave Dart
Managing Partner Morisey-Dart Group

To the team and personnel at First Home Bank who have been under tremendous pressure to get done all these PPP applications.

I would like to express our sincere thanks by sending out a humble token of our appreciation via a care package to you and your professionals. In addition, I would like to send a sincere and genuine letter of thanks to the management and executive team expressing our gratitude.

KELLY ALLEN, CPA, CVA, ABAR, CFF, MAFF,
MST
LEVEL ADVISORS

Hello Team,

I just received in a text a big thank you from Bill Leonhart at Kaw Valley Companies... his wire just hit and he is breathing again! Thank you so much for all of your help as this was a very dire situation! You saved approximately 80 families from dealing with layoffs... this is the root of the work we are all doing. I truly appreciate everyone's help on this!

On a side note we are still tracking down the funds for Scrap Management but I truly believe the issue is with their bank and not us... I will let everyone know once I have confirmation so you can wipe it from your lists...

Coming from Kansas City a giant thank you to everyone from Bill Leonhart at Kaw Valley Companies!!!

Michele

THB FIRST HOME BANK

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Jack:
The funds showed up today!!
Thank you so much for all of your help.
Once things are a bit calmer I will be reaching to you regarding moving my business to your bank. You have been so helpful, reassuring, honest, and responsive. I just can not thank you enough!!

Please forward this email to whomever you report to. I know you are crazy busy but you would take the time to respond to my constant emails and you also followed up with a phone call.

I really do not know how big your bank is, but you do not act like a big bank. Have a great weekend.

Doug Anderson

Good morning John and Tom,

First of all, I hope all is well for you, your families and co-workers.

We received the PPP monies this morning. Thank you for all your efforts. Thank you for helping Michael Aiello Construction Inc bring back its valued employees. We are most grateful for your efforts.

On a personal note, thank you for being patient with me and my worries about not getting this money.

Please be safe. Enjoy your day. May it be a blessed day.
Sincerely,

Dan Brennan
Michael Aiello Construction Inc.

Michelle,

Thank you for working with us. I just submitted the closing signatures. Have a great weekend!

p.s. You made mine so much better!

John Peck

Katie,

Thank you for your attention to my loan needs and helping me complete my documents. I signed the closing documents today.

I appreciate what you guys have done and the long hours that have been thrown upon you during this pandemic. Know that it made a difference today :)

Dr Roger Harris.



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To whom it may concern,

My name is Jim Scherer and I own Broke N Bored Grill on Redington Shores. I've been open for 2 1/2 years. Hurricane Irma hit 10 days after I opened, red tide followed the following year. Those experiences were nothing in comparison to the difficulties of Covid-19. My business had been experiencing 30% annual growth since opening. I proudly employed 19 people. The business was debt free, savings in the bank and was starting to really turn a profit. Then a very abrupt shutdown was forced and I closed. All 19 people were laid off. I took the savings account and paid all outstanding debts and started planning.

Rewind back to January. Mike Giasone and I had started talking about a SBA commercial property loan. I currently lease the restaurant property and have first right of refusal. I was developing a game plan to come out of a strong season with enough money in the bank for the down payment. That's obviously off the table now, but the connection was critical.

I have banked with Fifth Third since opening. They have served me well and are conveniently located a couple blocks from the business. When the PPP rolled out, I anxiously waited to apply for the program with them. I signed an online inquiry form and waited for correspondence. I called the branch every morning for instructions. I was told to wait. So I did. The program ran out of funding a few days later.

During my time waiting for Fifth Third, I called Mike. I figured, he was familiar with SBA loans, he'd have answers. My hunch was right. He returned my call, and put me into the application process right away. I submitted my application and the program ran out of money that same day.

Fast forward a few days. Mike calls. I followed his instructions and submit a new application. Again, we wait. The program was funded and I get the best news. Approval.

Wow. Tears of joy and relief as Mike tells me over the phone. My fear is starting to subside and I can finally think positively again. I can feed my kids. I can pay the rent, call my employees and get them back working. All because of Mike and the amazing team at First Home Bank. Although I've not met any of you, I want to tell you what kind of impact your hard work is having on small business owners such as myself.

I know that if it wasn't for the hard work, dedication and customer service from the employees at First Home Bank, I wouldn't have received PPP funding. I will be moving my banking business to First Home Bank and look forward to a strong relationship moving forward.

Keep up the hard work. Your dedication has kept this small business owner and my employees out of the unemployment line.

Sincerely,
Jim Scherer
Chef/Owner
Broke N Bored Grill

Chairman RUBIO. Thank you all, and let me start with Mr. Holtz-Eakin. I am going to ask you, in your testimony you note the function that PPP served as an emergency injection of liquidity into small businesses. What role do you think that that played overall in the U.S. economy in April, and the numbers I just cited earlier?

Mr. HOLTZ-EAKIN. Mr. Chairman, it was a crucial support for the U.S. economy. Between the middle of March and the month of April we lost 22 million jobs in the United States, and the downdraft was severe and it was enormously quick. The PPP put \$500 billion out into the small business sector during four weeks of that period. And we saw employment rebound in May in a way that we had not anticipated, and I think that the PPP was crucial for that occurrence.

And so I think it should be judged as nothing but a success, given the circumstances in which it was introduced.

Chairman RUBIO. Ms. McFarland, you pointed out that one of the things that helped you with PPP and EIDL is you had a prior relationship with your lender, your bank, and up-to-date financials, and so forth. So I am leading toward the question, which is, in your opinion what is the biggest barrier for women- and minority-owned small businesses when they are applying for programs like this? We have heard it is the technical aspects of the application, in some cases awareness that it exists, and others.

One of the studies that just came out yesterday talked about how while the distribution to distressed areas was generally in line with their percentage there are some urban area in the country that we had evidence of some failure, and one begins to wonder whether it is the lack of banking or lending infrastructure relationship in that area, or the lack of access to technical assistance for applications and so forth.

So I am kind of supposing, leaning. I do not know what your answer is going to be but I am curious what your view is on what, beyond your own business, what do you think is the biggest barrier for others that are similarly situated in accessing these programs?

Ms. MCFARLAND. Sure. Thank you for the question. I completely with—

Chairman RUBIO. Is your microphone on, just so they can hear you? There you go.

Ms. MCFARLAND. Can you hear me?

Chairman RUBIO. Yes.

Ms. MCFARLAND. I completely agree with you, Chairman. I think one of the biggest barriers is finding an appropriate bank in the community of that business, to help them navigate the intricacies of these loan applications programs. We were fortunate enough to have an amazing partner. We had been with our bank for over two years, but I do know that that is not the case for most small businesses, and we do not take that for granted.

Additionally, M&T Bank was in communication with us on almost a daily basis, either via phone calls or emails, and so I know, you know, we felt at ease navigating through the application process we had a bank like that. And I understand that most companies did not have access to that, which is a big barrier when applying.

Chairman RUBIO. Which leads me then to Ms. Williams, to talk about the importance of CDFIs and so forth. Obviously it is clear that you are supportive of a second round, as I think most members of the Committee are setting aside for the community lenders to further alleviate some of these disparities.

I am curious, and perhaps if you have any recollection of this or can contribute to it, at one point during the second round the SBA made the decision that over, I believe it was a 24-hour or 12-hour period of time, beginning at like 7 p.m. in the evening until 6 a.m. the following morning, the only lenders who could access the system, meaning send in applications, were lenders under a certain size or standard.

And their rationale was because the larger lenders had already loaded up all the application formats and they were just pressing Send, and it was overloading the system. So by clearing that out, by stopping that from happening, it created online capacity to process. In essence, it created an express lane over a sustained period of time, a few hours, for the non-large lenders to get their applications in. And my understanding is that that was a very smart—I am not sure it is something we need to legislate but it sounded like something that worked.

Do you remember that happening, and apart from the dollars set-aside, a time set-aside, the mechanics of actually pushing through the application online and so forth became a real problem for the system they had set up online. Do you recall that part, and if not, even if you do not, I mean, is that something that you think would make sense in terms of helping CDFIs and others get their applications in?

Ms. WILLIAMS. Yes, that dedicated access for small lenders was incredibly effective. CDFIs and their borrowers needed a little bit more time to be able to appropriately prepare their applications. They do not always have access to accountants or tax professionals to be able to prepare the application immediately. And so that first-come, first-served model really disadvantaged some of these business owners that needed more time to prepare.

On the lender side, when you are a smaller lender, which might not have had an existing relationship with SBA and real knowledge of how to access and leverage the E-Tran system, there was a process where you had to sort of understand how to get your loans through and access the system. And so that dedicated window really opened up some space for small lenders to be able to get their borrowers' applications through the system without having to compete with Federal resource lenders during that time period.

Chairman RUBIO. And again, I am not sure that is something we need to put in a bill per se, but it was certainly a process that I know helped clear up the backlog, and I am hoping that we can figure out a way to make sure that happens again.

Finally, Mr. Zernick, I am just curious. I mean, this would not have worked without the community banks and the nontraditional lenders, and so it just would not have, from a capacity standpoint. There is no way we could have done this with just the larger, major banks. We could not have done it without them, but we certainly could not have done it only with them. I can tell you that without regional and community banks and nontraditional lenders there is

no way we would have reached the breadth and scope of small businesses that we did.

So we are concerned about anything in a second round of assistance that would prevent banks from participating. In your view, what issues, what requirements, what prescriptions, what could prevent banks from participating in a second round of PPP?

Mr. ZERNICK. Thank you, Chairman Rubio. Obviously we need to fix the forgiveness process for the Round 1 of PPP. We have had numerous, burdensome hurdles to go through with our clients regarding how to calculate the covered period, how to calculate the FTE calculation required. There are three separate applications. They all come with separate instructions. We simply need, in addition to more PPP, we need to fix the forgiveness process in Round 1.

We do not need a blanket waiver. We simply need a streamlined process for forgiveness so that banks like ours, that have 9,000 loans to process forgiveness on, can focus on a next round of PPP under Round 2.

So lenders need, right now we do not need to calculate the forgiveness amount. We should not need to justify that the documents provided by the borrowers support the forgiveness amount. We simply should validate the documents have been uploaded and that the application is complete and ready to submit to the SBA. These are the things we could do in the forgiveness piece of Round 1 that would free up our teams to be able to process Round 2 in PPP.

Chairman RUBIO. Thank you. Senator Cardin.

Senator CARDIN. Let me thank all four of our witnesses. I think this has been extremely helpful, giving us specific recommendations on how to improve these programs and what is needed.

From the testimony of Ms. McFarland, Ms. Williams, and Mr. Zernick, it is obviously that you support PPP, another round, but you believe we need to do more, that it has got to be more comprehensive, we have got to deal with EIDL, we have got to deal with improvements in the current programs, and Mr. Zernick, you mentioned the 7(a) programs and other programs, the fee waivers, things like that, that are critically important for us to deal with. So I appreciate that.

I want to first go, if I could, to Ms. McFarland. It seems to me what you are telling us is that PPP was a lifesaver for you initially, but you also needed the EIDL help in order to pay for those expenses that were not covered by PPP. Otherwise, you may never have reached that point where you are today, where you have been able to adjust, to try to keep your business afloat as the economy is rebounding. Am I correct that you needed both PPP and EIDL in order to get through the initial period?

Ms. MCFARLAND. Yes, absolutely. Like I said before, we had to furlough all of our employees, all 10, and the PPP allowed us to hire five employees back. We did extend two return offers to two of our employees, but they decided to utilize the unemployment benefits and they also were living with at-risk family members. And the other three employees that we were not able to extend return offers to were project managers, and because we had not seen a project since February it was not feasible for us to bring them back.

However, the warehouse staff that we were able to bring back allowed us to win a sizable PPE distribution contract in April, whereby we were housing and distributing over a million pieces of PPE to over 100 community health centers.

So having our employees back was amazing, and then we sat down and we were trying to determine what we could do to generate revenue, and we still knew that we needed additional capital. So the EIDL loan went to our overhead and our working capital and utilities, like our internet bill. And because those funds were freed, we then were able to utilize those funds to transition our facilities into an athletic and academic training center.

Senator CARDIN. Thank you. Ms. Williams, one of your recommendations—so we are trying to figure out how is the best way to get resources into the underbanked or underserved minority communities—and one of your recommendations is that there should not be an offset from what is forgiven by the EIDL advance of funds that were received. Currently they offset the loan forgiveness by the amount of the EIDL advance. Am I correct that you believe there should not be an offset, that that is just creating an additional burden on small businesses, and they need help?

Ms. WILLIAMS. That is correct. We have heard from our CDFI lenders that borrowers were essentially unaware of this provision when they sought out their PPP loans, and as they start to seek out, you know, apply for forgiveness, it is coming as quite a shock that when they thought they were receiving both an EIDL grant that they would not have to pay back and a PPP loan that was fully forgivable, that now they are actually faced with a loan payment that they were not anticipating.

And then, on the lender side, I think they are also faced with having to hold and service a loan that they also did not anticipate, that they expected was going to be able to be forgiven and would not have to remain on their books. So it is creating challenges for both borrowers and lenders.

Senator CARDIN. As we talk to some of the lenders, it is just a natural bias to try to get larger loans rather than smaller loans, because of the processing costs, et cetera, it just makes sense. One of your observations was the processing fee on the smaller loans. If a small business, if a very small business has to rely upon a commercial loan as part of the PPP program in order to get access to the help, if the processing fee does not match the cost of the lender it is going to be much more challenging to get that type of activity, particularly again in underbanked communities.

Am I reading that recommendation that you think the processing thing has to match the cost here and not be capped at an amount that may be reasonable, percentage-wise, for a larger loan but not for a smaller loan?

Ms. WILLIAMS. That is correct. For small loans lenders are finding that the cost that they are incurring, both on the front end for preparing and processing the applications is very staff- and resource-intensive work, especially when you are dealing with the populations that CDFIs tend to need additional support in preparing documentation and getting those loans ready.

And on the forgiveness end, there also is an unforeseen and additional cost that lenders are encountering that together are making

it so that some lenders are actually losing money on making these smaller-dollar PPP loans. And for CDFIs that really want to be able to provide these resources to their communities, you know, this is a really challenging position to be in because they cannot actually cover the full cost of being able to provide those loans. So a flat fee that is reasonable, that really will allow lenders to be able to realize the full cost of making those small-dollar loans will actually encourage that small-dollar lending from more lenders.

Senator CARDIN. And I really appreciate the role that CDFIs play and thank you for your leadership on that. And I want to acknowledge, we have had bipartisan support in empowering CDFIs in this process. I want to thank Senator Rubio for his help. Obviously, Senator Warner has been one of the real champions on this and has been leading the fight in regards to the capital issue that you are referring to. And we certainly had cooperation from Secretary Mnuchin as we tried to deal with these issues.

I just really wanted to put that on the table because I think we recognized that needed to be done. And we were disappointed that the SBA did not follow our initial request to develop ways that we made sure that minority and underserved communities were served.

Mr. Zernick, one point. Your suggestions in regards to the 7(a) program, because I agree with you on this. If I understand, you believe we need to improve the current tools that are available. 7(a) loans are vitally important. It is the largest program we have under the SBA prior to the PPP program. And you are suggesting that the fee waivers and other issues that were involved in that should be part of this process, to make sure that we respond properly for COVID-19?

Mr. ZERNICK. Absolutely, Senator Cardin. I really think we need to create a business vaccine. We are doing it now to save humans. We need a business vaccine that will save our business communities, and that vaccine needs to be a cocktail that is made up of another round of PPP, plus our no-cost fixes. It has to include a long-term working capital solution by using the 7(a) enhancements of an increased SBA guarantee.

We need help lending into this pandemic through the 7(a) program, we need the fee waivers for our clients, and we need an increased authorization cap. We need to be able to prepare to help businesses launch and relaunch and restart their businesses going forward.

And lastly, the 4,200 SBA clients at First Home Bank need Senator Coons' 1112 payment extension. It was a tremendous help, and thank you, Senator Coons. But now it is time for more of this. Our businesses often cannot make their payments. We are inundated with deferral requests. Delinquencies are increasing. We need to protect our portfolio and our small business community, and that business vaccine, while it includes Chairman Rubio's PPP program with the no-cost fixes, we need that 7(a) enhancement and we need Senator Coons' 1112 payment extensions. Thank you, Senator Cardin.

Senator CARDIN. Thank you. I will point out, I strongly agree with you on Senator Coons' proposals. There is actually money that remained in that program, enough to cover moving forward. So it

is just a matter of repurposing the money that was already in that program.

Thank you, Mr. Chairman.

Chairman RUBIO. Thank you. Senator Risch.

Senator RISCH. Thank you, Mr. Chairman. First of all, I want to join the others in kudos to you for having led this fight. It was tremendously successful. The other important thing that America does not know, and probably never will know because it does not get reported, is this was a bipartisan effort, a for real, honest-to-goodness bipartisan effort. The Chairman deserves much credit for that, being able to bring the two sides together.

We get lots and lots of stories about arguing and fighting up here and not being able to get anything done, and PPP was certainly a great exception to that. And I also want to thank the Chairman for allowing all of us to have input into this. We all had our fingerprints on this, to some degree, though it certainly was your effort and deserves your name on it.

For people like myself who do not necessarily worship at the altar of government solutions to problems, I have to tell you I was astonished, first of all, by the fact that this program came together as quickly and as well as it did, and then I was even more astonished that it actually worked out in the field.

If it had not been so ugly it would be amusing the way the media ran around the country looking for failures in this program, and hence they found them, and as you said, Mr. Chairman, it is not perfect. There is no government program that is perfect and there are certainly things that could be done better, and under situations the government just cannot fix. The media was very skillful in going around and writing or putting on stories on TV and the media about this. Those of us who have worked this know that this was a tremendous success.

I think, too, another person that deserves real kudos here, and I think when they write the history of this thing he will get his own chapter in the book, and that is Secretary of the Treasury Mnuchin. I have to tell you, I was absolutely amazed. We wound up with glitches starting right away, as you do with any program, and every time we did we would call over to Treasury and talk to Steve Mnuchin, not to a bureaucrat, not to an assistant, but we talked to the Secretary of Treasury. They were not necessarily big things, but he paid very close attention to them, and at the conclusion he, unlike what you usually get in dealing with an agency, said, "Well, you know, I think we can fix that." And he went to work in good faith and resolved virtually every problem I was associated with, and I have to think that every Member of Congress had similar kind of a situation.

Mr. Zernick, you will be interested to hear that—you spoke quite a bit about the forgiveness program. To me, the forgiveness program was the poster child for the good work that Secretary Mnuchin did, by the time we got to him to complain about it, and it became obvious very soon that we had left way, way, way too much up to the bureaucrats to design a program for forgiveness. The first thing we saw was about a one-inch sheet of papers with questions on it for the forgiveness. By the time we got to Mnuchin,

he was already on the third iteration of that, having given directions to the bureaucrats to change that.

So we continue to work on that. I think your suggestions are well taken. We understand it is on both sides, not only on the lender but on the borrower, and that is getting better, I can tell you.

Look, this has been a real success. I never thought I would be able to sit here and look at how well this has actually operated out in the field. I think everyone is in agreement, again on a bipartisan basis, we need another round of this. I am sure that everybody on the Committee has the same view of this that I do, and we just shake our head as leadership and the body as a whole goes through these machinations in trying to get to another COVID bill, when we are in agreement on this.

I mean, if we threw this bill out on the floor it would get unanimous support on both sides of the aisle and in both houses, and yet we cannot move because we have these other moving parts. There are about 18 or 20 moving parts in here, and just because we have disagreement on some of them it is disturbing and disheartening that we cannot move this forward when we are all in agreement on it.

In any event, hope springs eternal, and we will proceed with that.

I want to ask one question before I yield the floor here, and that is I think, from all the testimony we have heard today, and what we have heard over the period of time, is that EIDL has not worked nearly as well as PPP has, and so we are interested in seeing, in the next round, that we do better with EIDL. There are a number of things that need to be addressed.

One of the interesting questions I have is the situation, the fact where people have borrowed both from PPP and taken money from EIDL, both of them. Can somebody give me an idea of how widespread this is? What percent of borrowers, or applicants, applied to both EIDL and PPP and received funds from both? Can anybody give me an answer on that?

Chairman RUBIO. I am sure from the staff level we could find that answer from the SBA if we do not have it handy.

Senator RISCH. How about a general sense? Can anybody tell me, is that widespread or is that a narrow lane of people that are caught up in that? I understand the problem. I just want to know how wide the problem is.

Chairman RUBIO. That applied for both.

Senator RISCH. It was not rare.

Chairman RUBIO. I am not sure we have the exact percentage but it certainly was not—I mean, I think—and maybe one of our two lenders that have been involved in the program can tell us how common it was for them to see people that were in both camps, but without giving us a raw number.

Senator RISCH. Can one of you—do you dare take a stab at that, as to how widespread? Is it over half? Under half? Is it a fourth? Is it 10 percent?

Nobody wants to run with that.

Mr. ZERNICK. Senator, this is Tom Zernick. I can tell you that as we process forgiveness today we are probably seeing 10 to 20 percent of the forgiveness applications including an EIDL advance. So

it is less than 50 percent, but again, those are all advances that are now going to be booked on our balance sheet as loans that these borrowers have to pay back, that they thought were grants. So again, anything we can do to get those paid off, get those forgiven, would be tremendously helpful to small businesses.

Senator RISCH. I get that, and I understand it. I guess what I am driving at here is I am looking for a price tag, and until we get that nailed down it is kind of hard to make a decision on that. But I guess the first one is what percent did, and then secondly we can maybe monetize that and see what the price tag would be to do that.

Chairman RUBIO. Well, I am certain we can get that number from the SBA, and we will make sure we get that. We will call them today.

Senator RISCH. All right, thank you. Thank you, Mr. Chairman.

Senator CARDIN. Mr. Chairman, this is Ben Cardin. Could I just respond to Senator Risch just very briefly, if I might, because I want to make sure we get this point clarified.

To me, the major problem with the EIDL program was there was not enough funds put into it, because in administering it they capped the loan at \$150,000, even though there was \$2 million authorized by Congress went into individual loans, and the grant program was supposed to be \$10,000 and they capped it at \$1,000 per employee, and it averaged between \$4,000 and \$5,000.

Now we have colleagues on both sides of the aisle that have objected to that type of administration, but that seemed to be the major problem that we heard of in regards to the administration of the EIDL program. And thank you, Mr. Chairman, for allowing me to clarify that.

Senator RISCH. Can I respond briefly, Mr. Chairman?

Chairman RUBIO. Yes.

Senator RISCH. Ben, I hear what you are saying and I agree with that. But it was not just underfunding. I mean, when the inspector general went in there was considerably more fraud in the EIDL program than there was in the PPP program, and I always hate to say that because that becomes the headlines, instead of the success of the program, where you have a blemish like this that you can fix, and should fix. That is something that we should focus on. And do not get me wrong—I do not question your assessment that EIDL is underfunded. But there are some other issues there too that need to be addressed.

Thank you, Mr. Chairman.

Chairman RUBIO. Thank you. Senator Shaheen.

Senator SHAHEEN. Well, thank you, Mr. Chairman. I will also leave my mask on in the interest of all of the people who may need to go home for the holidays.

I want to echo Senator Cardin's comments about your leadership on this Committee, Senator Rubio. I have very much appreciated the creativity with which you have approached your position as Chair and, of course, your leadership as we work to get the PPP program done, and I was very honored to be part of that group, to work with you and Senator Cardin and Senator Collins to help design that program. And hopefully we can get another round. I think all of us agree it is critical to get that out.

I also want to join with everyone who has talked about the success of the PPP program and really good work, despite some of the difficulties, that SBA did, and lenders did across the country, in getting funding out to small businesses who needed it. It has been a big success and hopefully we can get another round that will allow us to make some of the corrections that we have heard people suggest today.

I want to start with you, Mr. Holtz-Eakin, because, as a macroeconomist and somebody who recognizes that because you have worked in the Congressional Budget Office understands the challenges in Congress. Can you talk about what you think the impact will be if we are not able to get additional help for our small businesses and broader help in the economy in the way that we did with the CARES package back in March? What are we going to see if we fail to do that?

Mr. HOLTZ-EAKIN. I think we will see tremendous damage to the labor market, the disruption of employee-employer relationships. People then have to find new jobs, perhaps in different sectors of the economy. That is a slow and costly process for people. So that is the paramount concern.

It also undercuts other efforts that Congress is attempting. So losing all those businesses is a big disruption of the supply side of the economy. In the absence of that functioning supply side, checks to low-income households do not stimulate the economy, additional measures that Congress might look at on the spending side will not stimulate the economy.

And so it is a crucial part of moving forward with the recovery.

Senator SHAHEEN. And we heard Mr. Zernick say that 25 percent of small businesses have closed since the start of the pandemic. Have you seen any estimates about how many additional small businesses will close if they do not get help?

Mr. HOLTZ-EAKIN. I have not seen any such estimates, but we know that the core problem, which is spending on services, often provided by small businesses that involved personal contact, has not recovered. I mean, that simply has not come back. The initial decline cost us a quarter of small businesses. To go through another surge and have a comparable pullback I think is a real danger.

Senator SHAHEEN. Thank you. Ms. McFarland, you talked about the help that you received from the PPP loan and the EIDL both loan and grant. Can you talk with more specificity about which aspect of each worked for you and how they worked together, or did not, to address your needs?

Ms. MCFARLAND. Sure. Well, PPP and EIDL were a crucial lifeline to maintain our business functions. Without it, our doors would simply still be closed today. The PPP allowed us to rehire five employees. It allowed us to pay for rent. It also allowed us to provide health care benefits to those employees, while EIDL went towards our overhead, some working capital.

But the EIDL advance was something that we found difficult to understand when we are now understanding that it will be deducted from our loan forgiveness. But both were incredibly crucial to the sustainability of our business, and now, because of these funds, we are able to employ new small businesses to operate and

clean our facilities, and we are providing a semblance of normalcy to some of the kids in our community. We have seen 2,200 kids come through our doors, COVID-safe, of course. But to see these kids' faces light up, and we would only be able to see that because of the funds that we received from both PPP and EIDL.

Senator SHAHEEN. That is great. If I could ask one more question, Mr. Chairman, and let me also say, in answer to Senator Risch, we have heard from a number of businesses in New Hampshire who have also been very shocked by the fact that they have to deduct their EIDL advance from their PPP, and the hardship that it places on them. So I think we would share the concern that we ought to look at addressing that.

Senator RISCH. I think we all share in that information we have gotten from our small businesses.

Senator SHAHEEN. Mr. Zernick, you have extensive experience in SBA lending, and I wonder if you have seen the new forms that you may have been collecting from borrowers seeking forgiveness of their PPP loans. One of the things that we have heard from people is about this new form that is called "Loan Necessity Questionnaire." And it asks borrowers to complete, and lenders to collect responses to a detailed series of questions about PPP loans over \$2 million.

Now I appreciate the need to get that information, but there is real concern from a number of these businesses, particularly we have heard in New Hampshire from the Joslin Diabetes Center, from Lamprey Health, from Bi-State Primary Care Association, all of whom are dealing with medical cases. When they submitted this additional paperwork they are concerned about how this information is going to be used. Have you heard those concerns as you have met with small business people, and do you have any sense, based on your experience, of how this information might be used?

Mr. ZERNICK. Yes. Thank you, Senator. The Loan Necessity Questionnaire will impact 41 loans of the 9,000 loans our bank did, so we did not do a lot of loans over \$2 million. But I can guarantee you that this was not disclosed up front, and my fear is that with the start of this questionnaire there could be a trickle-down effect, where SCA and others continue to investigate and do a deeper dive into the validity and the necessity for these businesses to acquire the PPP loan.

So while we want to help our small businesses complete that questionnaire, again, I feel it is unnecessary outreach, and again, it is going to send red flags across the PPP who, for legitimate reasons, had larger payrolls and were truly eligible for the loans over \$2 million.

SBA has already agreed to review all the loans over \$2 million. To me, that should be sufficient oversight.

Senator SHAHEEN. Well, thank you. I share that concern, and that is certainly what we have heard from the businesses who have called our office.

Thank you, Mr. Chairman. I hope we can look into this and try and get more information.

Chairman RUBIO. Thank you. Okay. Is Senator Scott on the web? He is not? Okay. Senator Cantwell.

Senator CANTWELL. Thank you, Mr. Chairman, and sorry, we are also having a hearing in Transportation and Commerce on how to get the vaccine distributed, so I am running back and forth, two very, very, very important hearings. I hope everybody is absorbing all this information because we have so much work to do.

Chairman RUBIO. I would argue interrelated, right?

Senator CANTWELL. Very interrelated. In fact, I think I will just start with that.

I do want to ask about broadcast and the newspapers, but, Mr. Holtz-Eakin, you have mentioned this issue of municipality liquidity program and why did they turn back the money, because we could be using it. I am hearing from my cities and counties and districts. We just talked to the major distributors downstairs, with FedEx and UPS, and they are like, "Yeah, we are going to get it there," but I am like, "Well, what happens once it gets there? You still have to have an operation on the ground to distribute the vaccine, and you will have some hard-to-serve communities, like in my case Indian country, which is very big and vast. Who is going to be there to distribute the vaccine?"

So don't we need to be using those municipal dollars to help our cities and counties and public health people get the distribution system? I do not want to see another Puerto Rico, where we get it to the docks but we cannot get it to the location.

And then, Ms. Williams, I wanted to ask you, you know, we have been working hard on this broadcast and newspaper, because broadcasters lost 40 percent of their advertising revenue before 2018, and then they lost another 40 percent of their advertising revenue due to COVID. We issued a report showing how essential it is for public health information that we have broadcasters and newspapers to do that, so we definitely support a PPP program that helps treat those organizations. Just because you are an affiliate does not mean you have got a big boss that is helping you with lots of money. Talk to any affiliate and they will tell you, they are usually getting screwed over by the entity, controlled, the profits ripped out. All sorts of things are happening. Being an affiliate is not such a great thing for the affiliate.

So this means that African American radio stations that are part of Urban One, like Baltimore, and Spanish-speaking stations like Playa 98.1 in Fort Myers, they do not get relief. And, to me, we should be allowing for the distribution of information, particularly during this crisis.

We had Mr. Busby, the president of the U.S. Black Chamber, here, Black-owned newspapers and radio stations, who basically said, "Yeah, we need this help, because we are the source for trust in a community." So we want to see relief. Just because people are part of a larger ownership does not mean we cannot direct help to the individual affiliates. So if we could address those two issues I would be so appreciative. Thank you. Mr. Eakin?

Mr. HOLTZ-EAKIN. So the design of the PPP was essentially a decision to provide grants to small businesses in the form of these forgivable loans, and so the question in helping municipalities and larger businesses really was, do you want to continue with a grant formulation or do you want to move to a lending solution? The decision was made to have these facilities be lending facilities, the Mu-

nicipal Liquidity Facility and the Main Street Lending Program. Neither was particularly successful.

The economic equivalent of a grant program for municipalities, particularly in distribution of the COVID-19 vaccines, is to go back to a grant program and do it through appropriations. And given the importance of this to the health of the Nation and the functioning of the economy, I do not think there should be any hesitation in doing that by Congress.

Senator SHAHEEN. Thank you. Thank you.

Ms. Williams, about the affiliates and helping—look, we did a report in the Commerce Committee on the minority side, but basically local news is the most trusted news source, and in these communities where you have, again, diversity, they are also the most trusted news source. So how do we get them help?

Ms. WILLIAMS. Thank you, Senator Cantwell. I 100 percent agree that local radio and newspapers are key in reaching minority businesses. They are, as you said, trusted and reliable sources of information. And CDFIs actually use them to reach their potential clients, and they can provide, you know, culturally and language-competent information. They are also really helpful for small CDFIs with limiting marketing budgets to be able to reach these potential clients.

So we agree that they are critical to the flow of information, to making sure that small business owners are aware of the resources that are available to them.

Senator SHAHEEN. So I am going to take a wild one here. People say never ask a witness a question you do not know what they are going to say, but Mr. Holtz-Eakin, I am going to double down on you today.

This is my point. The press is helping us get perfect information. The competition of the press helps us get perfect information. Markets need perfect information. So do we not have to figure out how we are going to save a broader news information source in competition? Do we not need to do something as we are sorting out these legal issues on antitrust?

Mr. HOLTZ-EAKIN. I think the virtues of competition cannot be overstated, and that is true in this business as well. Preserving that competition is an enormous part of the portfolio of this Committee, because it is new entrants, smaller competitors, who, in all industries, provide the sort of innovation and competitive impulse. They give us better results and outcomes.

Senator SHAHEEN. Thank you. And about 75 percent of U.S. employment.

So thank you, Mr. Chairman. Thank you.

Chairman RUBIO. Thank you. Senator Coons. I thought you were on the Web. Now you are here. Omnipresent.

Senator COONS. Would you like me to yield to my colleague from Iowa? I am happy to. Would you like me to proceed or would you like me to yield?

Well, thank you, Mr. Chairman. Thank you to our witnesses. Thank you, in particular, to Senators Rubio and Cardin for having led this Committee in such a remarkable way. As a number of our witnesses, who have been doing a terrific job of being the voices of small business and of the lending community, have conveyed, this

is, in some ways, the underappreciated, unsung hero of pandemic response. In a strong bipartisan way, members like Senators Shaheen and Cardin, Senator Collins, and Chairman Rubio have worked tirelessly to put together and then deliver on a package which has made an enormous difference.

There is a long road to recovery for small business and for the employees of small businesses all over the country. I hear from folks, literally daily. I got several texts this morning from restaurant owners, from folks who work at restaurants, from our Chamber, and from folks who represent businesses large and small in my State, asking when will Congress do another round of PPP. And I am grateful for all who have worked on the EIDL, on the Debt Relief Program, in particular, David Brown and my team, who has really helped lead that. Thank you, Mr. Zernick, for recognizing the way in which the SBA Debt Relief Initiative really has made a lasting difference, and I think we should extend that.

But I just wanted to make sure that we drill down on just a few of these issues.

Small business owners across my State, from Warren Station, a family-owned business in Fenwick Island, almost literally the southeast point of the State, to Eat Clean, which is a full-service, relatively new, startup juice bar I recently visited in Wilmington, have seen on the ground the reality of what the dramatic drop in employment, in profitability, in opportunity has meant for small business employees and for small business owners during the course of this pandemic.

Ms. Williams, if I might, both I wanted to thank you for the way that the Opportunity Finance Network has been an engaged and effective advocate, particularly on behalf of those who make access to credit more possible, more real through CDFIs and minority-serving institutions. Two frequent concerns from very small business owners related to the complexity of applying for forgiveness and the tax consequences. I know these have been covered by other members, but these are the sorts of issues I hear day in and day out. Tell me about the importance of these concerns for the borrowers that Opportunity Finance members serve, and what you have heard so far today in this hearing about how we can address this, and quickly, in the bills that have been proposed recently.

Ms. WILLIAMS. Thank you, Senator Coons. We have heard extensively about how borrowers are concerned about the complexity associated with applying for forgiveness, and for lenders, quite frankly, who are continually getting new guidance coming from SBA and Treasury. The rules are changing. And there has been a little bit of hesitation, I think on the part of some CDFIs to start moving forward with their borrowers into the forgiveness process, because there is an anticipation that the rules could still change and Congress might make a bunch of additional changes in another stimulus bill.

So I think that uncertainty is creating a lot of hesitation, and I think it also may impacted demand from small businesses, quite frankly, going forward, if they cannot understand exactly how their loans are going to be forgiven if they are facing a lot of unforeseen and unanticipated costs associated with their PPP loans that they did not expect to have. That is going to discourage borrowers who

maybe sat out the first round, or couldn't get access, from trying to access PPP and also for borrowers who might be looking into a second draw.

The tax implications are also of great concern to some of the borrowers that are CDFIs are encountering, and I think that it is crucial that in the next relief bill that Congress address these issues in order to make sure that both lenders and borrowers understand the full implications and costs associated with the program and are able to enter into these PPP loans with that full understanding.

Senator COONS. And Ms. Williams, how can we best grow the capacity of the CDFI industry and the number of CDFIs able and available to meet the needs of underserved communities and underbanked communities?

Ms. WILLIAMS. The most important thing that Congress can do is strengthen the institutions and lenders that are already working in our most underserved communities, and Congress can do that by immediately providing direct appropriations for the CDFI fund for rapid response grants. They provide critical equity capital that CDFIs then use to leverage low-cost debt from our bank and private sector partners, and this allows us to not only be able to make PPP loans but also to provide additional products that borrowers need, like working capital, but also providing things like loan forbearance and deferrals or other emergency relief programs to help borrowers really meet their needs.

And, quite frankly, you know, there are 1,100 certified CDFIs working in urban, rural, and native communities across the country. We are ready to deliver this capital. We have the expertise. We are in communities. We are on the ground. We know how to mobilize. And so deploying those rapid response grants to the CDFI community is a way to make sure that these Federal resources are able to reach our most vulnerable businesses quickly and effectively.

Senator COONS. I am excited about the bill that is right before us, that has been proposed by a bipartisan working group, that would deliver at least \$300 billion in aid. There has long been bipartisan support for a prioritized PPP or a P4, to serve the hardest-hit small employers with carveouts for small and underserved communities. It has also got some significant provisions about small business grants, addressing some of the expensing and tax liabilities, some of the overlap between EIDL and PPP that has been addressed.

But I also want to—I hope we have time in future hearings to talk about the ways in which we ensure an equitable recovery going forward. Senator Scott and I just introduced the Next Generation Entrepreneur Corps Act, which would create a fellowship program with a stipend and mentorship and access to capital, to hundreds of new entrepreneurs.

The relief bill that is in front of us is the one I know my folks in Delaware want to see us move, so let's not miss this opportunity to make a lasting difference for the communities in need all over our country. But we also need to look forward to how we make this an equitable recovery.

Thank you very much, Mr. Chairman, for your leadership of this Committee, and thank you to the witnesses today.

Chairman RUBIO. Thank you. Senator Ernst?

Senator ERNST. Yes. Thank you, Mr. Chairman, and thank you, as well, to all of our witnesses that are appearing here in person as well as virtually. And we all understand the last nine months have been. It has been an extraordinarily difficult time for our small businesses all across the United States. But through all of this, one of the few bright spots has been the Paycheck Protection Program, which, of course, we refer to as PPP. It has allowed businesses to keep their employees and survive the shutdowns and the economic slowdown.

In my home state of Iowa, the PPP provided over 61,000 small businesses in loans totaling over \$5.1 billion of relief, and it did save hundreds of thousands of jobs. And while the PPP, which was created through bipartisan efforts on this Committee, has proven to be widely successful, it has very clear to all of us that an additional round of assistance is needed for small businesses that continue to be impacted by COVID-19.

And just to share a story from Iowa, I did recently hear from a movie theater owner in Iowa who has been forced to take out multiple loans against their 103-year-old founder's life insurance policy just to get by. And it is these folks who really, really do need the assistance now. And that is why I am glad, Mr. Chairman, and to this Committee, that we are taking the time to identify ways that we can build upon PPP as we continue to work on an additional round of COVID relief.

For the panel, I do have a couple of questions. As our businesses do continue to feel the impact of COVID-19, it is becoming clear that some businesses, like restaurants, will need more than a PPP loan to survive. A recent survey found that 41 percent of Iowa restaurant operators say it is unlikely that their restaurant will still be in business six months from now, and that is really heartbreaking, I think, for so many of us.

Can you speak to the importance of immediately passing assistance for industries like restaurants, movie theaters, and maybe others, that, because of the circumstances have not been able to open back up? Can you just briefly speak to that and maybe share some thoughts on what might be necessary, and Mr. Holtz-Eakin, if we could start with you, please.

Mr. HOLTZ-EAKIN. Thank you, Senator. The challenge is how to operate the economy in the face of the virus, and there are some industries where PPE, testing, social distancing allow you to continue to operate, but we are finding with the surge in cases that in restaurants that is probably not going to be able to succeed. And in those circumstances, only to preserve these industries, essentially to wrap them in financial protection and carry them through until the virus recedes. That is what the PPP program did in the spring. A second round could do it again, going forward.

Senator ERNST. Ms. McFarland, do you have some thoughts?

Ms. MCFARLAND. Absolutely. Similar to the restaurant and theater business, live event venues and producers have also been devastated by this. We always love to have tens of thousands of people together in one space, and right now we just are not able to do that. With the course of the virus and the schedule of the vaccines we are just not sure when we will be able to revitalize our core

business. And so we are, myself and other small businesses, are in great need of additional funding in order for us to ensure that we can make it to that time.

Senator ERNST. Thank you. Any of the panelists that are joining us virtually, if you have any thoughts?

Ms. WILLIAMS. I would only add that the failure to support these businesses will have a devastating impact on the surrounding economy, so when businesses close it is not just the business owner who, of course, loses their livelihood, but employees lose their jobs. If the business owner has put their home up for collateral, they might be at risk of losing their home. The neighborhood loses access to a product or service.

So there are really a lot of cascading impacts that result from the closure of businesses, and so I think it is important that we think about how we protect these businesses to make sure we are not encouraging these negative economic impacts.

Senator ERNST. Thank you, Ms. Williams. And if I could continue with you, please, because you are speaking a little bit to the frustrations and the impacts to the surrounding businesses as well. We have heard from an increasing number of PPP participants about their frustration and the fact that business expenses paid for using PPP funds are taxable, according to the IRS. I have had many small business owners bring this directly to me. And I know we have spoken about this earlier in the testimony, but, Ms. Williams, in your specific testimony you note that this has become an unexpected expense for many of these businesses. And I do worry that this will be very devastating and have a huge impact on Iowa businesses.

Can you discuss the importance of reversing this guidance and ensuring that these business expenses are deductible?

Ms. WILLIAMS. Yes, absolutely. I think it is an unanticipated negative consequence of PPP loans where, you know, business owners who thought they were receiving a fully forgivable loan are now potentially facing a large tax bill when they file their taxes next spring, at a time when they can least afford to pay for it. I think that it is something that Congress should immediately address, because, again, this is not anything that the lenders or the borrowers had an understanding of when they entered into the agreement for the PPP loan, and it has the potential to have a significant financial impact on businesses that are already struggling.

Senator ERNST. Yes, I agree completely. It is something that does need to be addressed.

Mr. Holtz-Eakin, in your testimony you noted that the strengths of PPP outweigh the weaknesses in the program and that there are areas where we need to see improvement before another round of funding is passed. You suggest that the single most effective reform we could make to PPP is to change the focus from payroll to revenue, which you, and I tend to believe as well, that that would be the most reflective metric of the challenges that our small businesses are facing. Can you expand a little bit on that thought?

Mr. HOLTZ-EAKIN. As I said in my opening remarks, the driving economic force that was prevailing at the time of PPP's introduction was this enormous cash flow crunch across large swaths of the economy, so there were no customers and there was no revenue

coming in. The ideal replacement would be to replace the revenue in its entirety and that would cover all the costs, and that would preserve those businesses.

That is a lot more expensive. That would have been a trillion-dollar program, easily, last spring, and it will be even more expensive going forward. And I recognize, you know, there are challenges in meeting that, but that is the logic which to sort of not pick and choose among expenses but replace the business model when they cannot operate because of the virus.

Senator ERNST. And certainly we want to make sure that as many of the jobs that were supported by PPP are protected. That is very, very important. But we do recognize that perhaps some changes need to be made as we are moving forward.

Mr. Chairman, I do want to thank you and others on this Committee that have worked so diligently on this program. I cannot tell you how many times I hear from Iowa businesses how important this has been in protecting their employees and their livelihoods. And I look forward to working on some of these reforms and moving forward with additional relief for our small businesses. So thank you very much. I yield back.

Chairman RUBIO. Thank you, and thank you for all of your input, all of the members, but in particular all of the input you gave us on the unique needs of your State. It was instrumental, so thank you.

OK. Let's go online here. Senator Booker, are you ready?

Senator BOOKER. I am. Thanks so much, Chairman. And I just want to thank you, the Chair and the Ranking Member, for just holding this important hearing and all the work that we have been able to do together. I really want to thank the panelists as well for joining us.

As we speak, we are negotiating this COVID package, and more relief is most certainly long overdue, but I am very, very concerned that this current package will not fully address the needs of the hardest hit small businesses and minority-owned businesses. We have already discussed a lot of the structural challenges of the PPP program, and really what small businesses have faced in challenges with getting the resources they need to stay alive, to survive. Many of them do not have the relationships with mainstream banking and that has been a problem.

And so I am thrilled, as I have talked to a lot of the people who are on the front line negotiating this package, that we will have more resources for CDFIs, credit unions, small community banks, MDIs, and for the Minority Business Development Agency. We know that many small businesses are still, though, not yet in CDFI networks. We need to change it. And many small business owners simply are not really interested in taking on more debt.

And so maybe I would just like to just ask quickly, to the whole panel, for anyone who might want to take this, but to me a piece of this equation has to be the State and local relief funds which have an unparalleled reach in the communities, on communities of color, low-income communities. And the funds need to be flexible in terms of financing options, and must include grants.

And so I would love to hear from the panel on do you agree with me that when you are shutting down businesses or limiting their

hours or other things that are important for us to get out of this health crisis, I just really believe flexible funds and grants are really important to fill the gap. And I would love to hear any feedback or thoughts on that.

Mr. ZERNICK. Senator Booker, this is Tom Zernick, and thank you for your comments. I wanted to mention that in my testimony I mentioned we really need to expand the eligible use proceeds under a Round 2 of PPP. While payroll is important, businesses need to know they can cover all of their operating costs to stay open, and I would encourage all of you, as you look to the new COVID relief package next week that we not only address the PPP program and making the fixes, the no-cost fixes that we talked about, but part of this has to be providing long-term capital to businesses that want to relaunch.

Today, we are looking at 7(a) loans. We are looking at dented financial statements. We are looking at companies whose profit-and-loss statements are showing tremendous losses. And while they project profitability in the next 12 months, those are very difficult credit decisions for us to make, and that is why we need, in addition to PPP, we need the enhanced SBA guarantee, taking it to 90 percent, and waiving the fees for these small businesses, and also increasing our authorization cap, so we have access to funds to support all these businesses that you are talking about.

And as far as minority lending goes, I am proud to announce, just this week, First Home Bank launched a \$50 million minority loan initiative. Ms. Williams, I am going to be contacting you, because I think we can help many of your clients. But we will open our doors for PPP and 7(a) to all minorities, not only in the Tampa Bay area, where we are at, but across the country.

So, Senator Booker, we are interested in expanding use of proceeds. We need the resources, including an enhanced 7(a), we need Senator Coons' 1112 payment extension, and certainly more PPP today with the no-cost fixes I have described in my testimony.

Senator BOOKER. Thank you very much.

Ms. McFarland, I understand that you, in addition to Federal assistance, your business received aid from Maryland and Prince George's County's State and local relief fund. I have got a bipartisan proposal called the Relief For Main Street Act, that would send \$50 billion to states, cities, and counties to seed and scale funds like that, that are connected to communities, know where the need is.

And I am just wondering if you could talk a little bit about that experience of having a more locally-based fund that was able to help get your resources.

Ms. MCFARLAND. Absolutely. The State and local funding initiatives are crucial to our community and small businesses around the country. We were fortunate to receive funding from both the State and the county level. They were not as restrictive so they allowed us to invest in the actual flooring to house our basketball facility and allow kids to train there.

In addition, our local communities often know us best, so providing them with resources enables them to support us and deploy resources in effective and efficient ways. For example, in response to COVID-19, Employ Prince George's and several partners

launched the Prince George's County COVID-19 Hourly Employee Relief Fund, which provides \$200 cash cards to PG County residents who were recently laid off due to the pandemic.

At the State level, my State set up the Maryland Small Business COVID Emergency Relief Fund, which was a \$75 million fund that offers \$50,000 loans to assist Maryland for-profit small businesses that have faced disruptive operations during COVID, with 0 percent interest due for the first 12 months and 2 percent for the remaining 36 months. But the fund stopped accepting applications in early April, so we are still in need of those fundings for the local and State levels. Thank you.

Senator BOOKER. Thank you. I want to be respectful. I think I am at my time. But I do want to say, Chairman, we have made a lot of progress on this Committee about removing the collateral consequences for people with prior criminal convictions. We did not eliminate them, though, and there are still some, what I believe are really unfair exclusions for people with past criminal convictions within a year, that have nothing to do with their business or business enterprise, nothing to do with sort of maybe concerns about their financial reliability or what have you.

And I would still love to work with folks here to try to remove those final restrictions as we go to another round, God willing, as we go to another round of PPP and potentially EIDL loans as well.

Chairman RUBIO. And I think it will be interesting to continue to work on that. Are those new glasses? Is that new look?

Senator BOOKER. You know, man, this is what you call I am getting old, my brother. They are called readers for agedly-impaired.

Chairman RUBIO. I had trouble today for the first time seeing the name tags from the distance here, so I may be looking to buy those. We will match up.

Senator BOOKER. Us Gen Xers, man, we are getting there, slowly and surely. We are going to need it more.

Chairman RUBIO. I am going to have to use what Cardin uses. Look at how wide and Senatorial they are.

Senator BOOKER. I suggest, Chairman, that you shave your head before—

[Laughter.]

Chairman RUBIO. Is that the look? Okay.

Senator BOOKER. Yes.

Chairman RUBIO. All right. Why not. It is 2020—what else could happen?

Stay safe. All right.

We have Senator Hirono and then Senator Rosen.

Senator HIRONO. Thank you, Mr. Chairman, and I thank the witnesses. I am glad that we are focusing on how we can improve the PPP program and other programs that are specifically targeted to help small businesses.

I just heard Mr. Zernick mention that he would support SBA loan guarantee up to 90 percent, which I think right now, Mr. Zernick, is at like 70 percent or 75 percent, and that you would like an increase of your authorization cap.

Ms. Williams, I believe that you represent a network of small lenders. Would you also support these two suggestions that Mr. Zernick made?

Ms. WILLIAMS. Yes, absolutely. We do support raising the guarantee on the 7(a) program, and I would also like to say that we also support the extension of the Section 1112 CARES Act debt relief payments. Like Mr. Zernick said, those were incredibly helpful for both borrowers and lenders, to provide a little breathing room during this crisis, where borrowers did not have to make those payments but lenders were still able to receive that income from the SBA. So those have been tremendously helpful.

Senator HIRONO. I think some of these provisions are in Senator Cardin's HEROES Small Business Lifeline Act. Ms. Williams, have you read that proposal, that bill?

Ms. WILLIAMS. Yes.

Senator HIRONO. Mr. Zernick I wonder whether you support the provisions of this bill, because I think that it does really help the people that you represent. Mr. Zernick?

Mr. ZERNICK. Yes, absolutely.

Senator HIRONO. You will support this bill?

Mr. ZERNICK. Yes, I absolutely support that, Senator Hirono, and I saw it firsthand in the Great Recession of 2009, when President Obama's Recovery Act elevated the guarantee to 90 percent. It also increased the authorization cap and it waived the lender and borrower fees. We lent our way through recovery through 7(a) loans. Commercial lending stopped, like it is now, and borrowers simply had no access to capital, and that is the benefit, the power of SBA.

So I strongly encourage the COVID relief bill that gets reviewed next week include not only the PPP, with our no-cost fixes, include Senator Coons' 1112 payments, but also include an enhanced guarantee, gets the cap rate and the authorization we need, and waive the fees for our borrowers.

Senator HIRONO. Thank you very much. I think we are still focusing on getting Republican support for the kinds of items that you just talked about in the relief negotiations.

I have been very much focused on helping those businesses with fewer than 10 employees. So I would call these smaller businesses within the framework of small businesses, so businesses with 10 or fewer employees. And we need to make sure that these smaller businesses, they do not have the accountants and the lawyers to help them navigate through all of the requirements for getting a PPP or EIDL or any of those kinds of loans, not to mention loan forgiveness.

So can any of the witnesses elaborate on the particular challenges that smaller businesses, as I have described, have experienced with PPP, and what can we do specifically to make sure that these smaller businesses are able to access these programs? This would be for any of the witnesses.

Mr. ZERNICK. Senator Hirono, I can tell you that I was getting my hair cut this weekend in preparation for this hearing today, and my beautician happened to get a small PPP loan. And I said, "How is it going, Kim, on your forgiveness process?" and she said, "Quite honestly, the application was so complex I had to hire an accountant, and I just do not have the money to pay for an accountant to help me compile the information needed to process her forgiveness." That was very concerning to me, Senator.

So I think that as we look at lending money in the smaller loan space here, we have to make it non-complex. These people do not have CFOs. We have to keep it simple, keep the calculations simple. And again, this program can work. In fact, of the 9,000 loans we did at First Home Bank in PPP, 6,800 of them were less than 10 employees. We were doing loans for \$500. So again, we have to focus on these truly small businesses, and that is really what Main Street is about.

Senator HIRONO. So there must be some specific things we can do with regard to how Treasury and SBA and others put out their guidance, because if people cannot understand, make it out, and you have to actually hire people to help them, that does not make much sense.

So going forward I would really like to have the witnesses who have experience with this, if you have very specific ways that you can change the kind of language that is used in the guidance, the kind of requirements please let us know.

And, Mr. Chairman, I hope that we can focus on having the administration be much more transparent and communicative in how they are dealing with hundreds and hundreds of thousands of small businesses right now who are trying to get loan forgiveness.

I think my time is up. Thank you, Mr. Chairman, and again, I thank the witnesses.

Chairman RUBIO. Thank you. Senator Rosen.

Senator ROSEN. Well, thank you, Mr. Chairman, I really want to give you a special shout-out for your leadership over the past couple of years. Small businesses are just really in a better position because of it. We have worked on a lot of things that have really helped my State, and I appreciate working with you and your staff always. I also want to thank Ranking Member Cardin and Senator Shaheen for their continued mentorship and leadership as well. They really have been so helpful. Ninety-nine percent of businesses in Nevada are small business. This Committee really has helped us get the resources that we need at home, particularly in the pandemic.

But, you know, we are hearing today about the small businesses and coronavirus has put millions out of work, millions of people out of work. Of course, I am fighting like everyone else for a second round of PPP for our struggling small businesses, direct support to restaurants, live entertainment, help for our hospitality and tourism industry, of course, very important in Nevada. It is the backbone of our economy.

It is why I just introduced, along with Senator Cornyn, legislation to provide direct relief to all of our small businesses, the EIDL for Small Businesses Act. This bipartisan legislation would lift the SBA's cap on both EIDL loans and the EIDL advance grants that we have been talking about. So it would provide all eligible small businesses with loans up to \$2 million, and the full \$10,000 grants regardless of size, and it would replenish the EIDL and the EIDL advance accounts by \$180 billion. And as everyone has been discussing, EIDL and PPP have really worked together to take care of our businesses. We need more flexibility with the PPP, and I hope that we are going to continue to do that.

But Ms. McFarland, I know that your business, you received EIDL funding early on, before the SBA put on these arbitrary caps that we are trying to lift. So can you just speak briefly, if your business had not received the full EIDL loan that you were eligible for, \$490,000, and instead only received \$150,000, how would it have affected your business if you had these caps placed on you?

Ms. MCFARLAND. I would be sitting here today telling a much darker story had we been capped at that \$150K. Because we did not have that cap we were able to produce a dream that my parents and I put together to not only allow our business to survive but allow our community to also thrive. Those funds were crucial in the rehiring of our staff, the paying of our rent. Our rent alone is \$36,000, and we had a gracious landlord that allowed us to reduce our rent during the summer. That extension ended around October. And so those funds were also able to cover those expenses as well.

But all of those funds were exhausted at the end of October, and so I implore Congress to provide an influx of funding as soon as possible so that we can continue to be of service to our community and our employees.

Senator ROSEN. Thank you. I want to follow-up a little bit on that, because we need to be sure, when we support all of our businesses, that consumer confidence, people feel safe going back indoors, to a restaurant, to a venue, to a hotel, casino, wherever it is, movie theater, whatever it is you are doing.

And so I want to be sure that we provide businesses with funding for not just the PPE technologies but other technologies that might make our indoor spaces more safe, like increased ventilation, tax credits for that, upgrading your HVAC and some of those things.

So have you incorporated any systems like that, or how would that help you if we were able to give you support to upgrade your ventilation system so people might feel more confident about the air they are breathing indoors?

Ms. MCFARLAND. Absolutely. Our main priority is the safety and health of our customers, the kids that come through our doors, our employees, my parents. And so we have already taken the sacrifice to invest in expensive technology and equipment to ensure the safety of the participants that come through our facility. We have hired another small business to come in and clean our facility 10 hours a day. They clean and sanitize between uses of the basketball facility.

We have also updated our HVAC system, which was a large expense, but we knew we had to commit to that, because we are committing to our community wholeheartedly. So having funding to help us continue to invest in those safety precautions would be incredible.

Senator ROSEN. Thank you. I appreciate everything you are doing and hopefully they are going to provide some form of help to allow businesses to upgrade, to make all of the spaces safe going forward.

Thank you, Mr. Chairman.

Chairman RUBIO. Thank you. Senator Hawley.

Senator HAWLEY. Thank you, Mr. Chairman. Thank you for holding this hearing. Thanks to the witnesses for being here.

I want to start by acknowledging that the PPP program has been a vital lifeline to small businesses in my State of Missouri. It has saved probably countless jobs. I mean, hopefully we will know the number at some point, and it will be, I am sure, a very high number indeed. But it has been a vital, vital program, and it has enjoyed broad bipartisan support.

However, I think it is worth knowing, we have to note, that despite the supposedly broad bipartisan support, we still have not been able to get the program renewed. We still have not been able to get consensus, to actually bring to the floor, have a debate, and vote on a bill that would supply additional funding to renew this program at a vital time. And we see just from today's unemployment numbers that unemployment claims are once again on the rise. This can only be described as a failure of the Senate and of this Congress to take action at this vital time. So I want to underscore again that it is time to give this program another lease on life, to make sure that we get small businesses the help that they need.

I also want to raise one other issue, one other problem with the program that we have seen in my State, at least, and that is the changing terms on the loan issuance at the front end and then also the loan forgiveness. In particular, now the SBA has recently announced that it is going to mandate that borrowers that receive loans of more than \$2 million complete a detailed Loan Necessity Questionnaire that describes their operations and financial conditions during the pandemic.

Now I just want to raise one set of concerns with this and with that questionnaire as it has been written, as it relates to churches. Now I want to be clear—I am all for making sure that for-profit organizations, like the Lakers, for instance, that I think applied for initially and tried to get a PPP loan—I mean, give me a break. For-profit institutions absolutely—first of all, no institution should be getting the loans that do not need them. Second, for-profit institutions should be subjected to rigorous scrutiny here, and perhaps many nonprofits as well.

My concern with the way the questionnaire is written is as it applies to churches, churches now are being asked to disclose all manner of information under this draft questionnaire that they had no ability to anticipate when they applied for the loan. And can I just say, it was very difficult for quite a few churches in my home State to get loans initially because the SBA wrongly informed local lenders, for the first approximately week of this program, that churches were not eligible.

So after all of that difficulty in applying for the loans, now churches are told, "Oh, wait a minute. Actually, we are changing the terms and the forgiveness program, and we want lots more information, in fact, different information than we told you initially we would ask for, and if you do not give it to us, maybe we just will not forgive your loan after all."

I do submit to you, Mr. Chairman, that that is simply not fair as it relates to these organizations, these nonprofits that are, by definition, of course, religious institutions, nonprofits.

And so I have written to the SBA about this. I want to express my concerns about that questionnaire as it applies to religious nonprofits, to churches on the record, and I hope this is still a draft questionnaire and it has not yet been sent out. But I just want to make it clear that I have major concerns with how this will be applied and how it will affect the religious institutions who, frankly, have had a more difficult time under this program than they should have.

Mr. Zernick, in the time that I have remaining here let me just ask you, start at least, with a question about how this program, in your experience processing loans under this program, has gone for urban and rural areas. My state, again, the State of Missouri, is actually a majority rural and ex-urban. The rural areas predominate. I imagine that your institutions have processed loans for small businesses in both, in both urban and rural areas. Can you give us a sense of what your experience has been in assisting borrowers in the two different regions, and have rural borrowers been able to get access to the program successfully?

Mr. ZERNICK. Sure, Senator. Let me start by saying last year First Home Bank was a top 10 SBA lender in the country. We are a preferred lender. We lend actually in all 50 states, including your fine State. We lend in the rural markets. We lend in the large metropolitan statistical areas. We do not have any geography restrictions. When we did the PPP program, we opened our doors to businesses across the country. And while about a third of our loans were done in our home state here in Florida, two-thirds of our loans were done across America, including the rural communities.

So we are very proud of that, and as we position ourselves for Round 2 PPP, we will continue to open our doors to First Home Bank customers and non-First Home Bank customers, and I assure you, we will be lending in the rural communities as well, like we did in Round 1.

Senator HAWLEY. Ms. Williams, can I just give you an opportunity briefly to comment, and ask you if you have any perspective on this?

Ms. WILLIAMS. Absolutely. There are many CDFIs that are focused on meeting the credit needs of their rural communities, and PPP was no exception to that. So there are some lenders who, you know, of course served their existing customer base with PPP loans first but then opened their doors to other small businesses and nonprofits who needed access to capital.

And I think the virtual nature of how we are operating during the pandemic actually made it a little bit easier to reach some of these rural customers through online means, to help them apply for PPP loans, than we might have seen if it was a more sort of—based on a physical, in-person process. So CDFIs are always looking for ways to expand their footprint, to provide more access to capital in our rural communities.

Senator HAWLEY. Very good. Thank you. Thank you, Mr. Chairman. I will have some additional questions for the other witnesses for the record, but my time has expired. Thanks, Mr. Chairman.

Chairman RUBIO. Thank you. Do we have anyone else on?

Senator Cardin, did you have any follow-up questions?

Senator CARDIN. I just really want to thank this panel, and I think this has been one of our most informative hearings. You have really given us a lot of really good suggestions, moving forward. I think it is very timely, because we do hope that we are going to be able to act on a COVID package before we adjourn for the holidays. And I think we have gotten some valuable help through all four of the panelists, so thank you very much for your input, and I can assure you that we took notes and we are going to use this information moving forward, to try to do the right thing for small businesses.

Chairman RUBIO. Great. Thank you. We were waiting for Senator Young but he is not back on the WebEx. He is on? Senator Young, are you there?

Let me give him a few seconds. I do not want to hold the witnesses up any longer, but he was on earlier.

There he is.

Senator YOUNG. My apologies. Thank you, Chairman. We had some technical challenges. Can you hear me okay?

Chairman RUBIO. We can hear you perfectly.

Senator YOUNG. All right. Well, I thank the witnesses so much for being before the Committee today, and I commend Chairman Rubio for his leadership on small business issues throughout this pandemic. The Debt Protection Program has been highly successful helping small businesses, and by extension, their employees weather this pandemic. I am glad we are here today to discuss extending the program and also to assess ways we might improve it.

According to the 2020 Indiana Manufacturing Survey, 44 percent of respondents cited the PPP as the primary reason for their survive. Still, nine months after many of the government-mandated closures first went into place, we are seeing small to mid-sized businesses struggling to make ends meet, placing more jobs at risk.

As one example, Tyler Truss Systems in Pendleton, Indiana, has been a leading truss manufacturer to the live events industry. They received a PPP loan in May that enabled them to keep their 72 employees on the payroll. But as the pandemic has continued and the live events industry remains largely shuttered, Tyler Truss has seen a significant decline in sales, with an 87 percent drop in the third quarter of this year. The company is now down to less than 20 employees, and without additional relief they will continue to struggle.

For several months I have been pushing for additional small business relief, including my RESTART Act with Senator Michael Bennet, and I would like to thank Chairman Rubio for working with me and my staff on including some of the principles from RESTART, like the revenue decline threshold and expansion of forgivable expenses, in the PPP second draw proposal. Given the progress in negotiations these past few weeks, I hope we can come together and pass more relief in short order.

With millions of businesses still facing financial uncertainty, my RESTART Act would address the concerns heard from across the country, where businesses were restricted from relief programs, including businesses in manufacturing, hospitality, travel, recreation, and entertainment. The RESTART proposal would target our limited resources to the hardest-hit businesses, including those over

500 employees, by offering partial loan forgiveness based on revenue decline.

Additionally, it would provide flexible loans to help employers with a broad set of operating expenses, instead of a focus on payroll costs. This is especially important for those who cannot maintain full payrolls due to significant and sustained loss in revenues.

I should note that the RESTART Act currently has 59 bipartisan co-sponsors in the United States Senate.

For Mr. Holtz-Eakin, in your testimony you indicated one of the most effective reforms would be to change PPP's focus from payroll to revenue replacement, similar to what my RESTART Act would do. Can you kindly elaborate on the importance of this possible reform and its benefit for a recovering economy?

Mr. HOLTZ-EAKIN. Certainly, Senator. As I noted earlier, the economic problem that the PPP addressed was large cash flow crunch, generated by the virus itself, and the fear people had to engage in commerce and thus risk infection or transmission of the disease. So when the customers disappeared, the revenue disappeared, and the mechanical replacement of the revenue would address that business model problem.

The difficulty you face is that it is much more expensive and targeting a much smaller part of the cost base of the business, but economically it is far more effective.

Senator YOUNG. Thank you so much. I have one additional question for you, if the Chairman will indulge me. It pertains to seasonal employment.

We have a business in Indiana that I would like to cite as an example: Holiday World and Splashin' Safari. It is fourth-generation, well-known, family-owned theme park located in the southern part of my state. And historically, Holiday World has earned 99 percent of its revenue between the months of May and October.

However, like most seasonal businesses, Holiday World was unable to open until June, and ended the season early, in September. I am told that Holiday World experienced a 66 percent year-over-year revenue loss in 2020.

Unfortunately, the amusement park did not qualify for an original PPP loan because it exceeded the full-time employee threshold. However, I am hopeful that PPP second draw program will incorporate a new seasonal employee definition that takes into account the unique fluctuations for these types of businesses.

Again, for Mr. Holtz-Eakin, are there any additional PPP improvements you think Congress should consider to ensure small businesses receive the relief they need, especially any changes related to seasonal businesses?

Mr. HOLTZ-EAKIN. Senator, I have not given any specific thought to seasonal businesses, but I think the rule of thumb should be to spread it over the full year and see if it qualifies for the program, and my expectation is that it would, under those circumstances. So that is a modification we might think about, going forward.

Senator YOUNG. Very good. Thank you so much to all of our witnesses, and to Mr. Holtz-Eakin for answering my questions, and I yield back to the Chairman.

Chairman RUBIO. All right. Well, I want to thank all of the witnesses for participating here today, all the members who attended

this hybrid hearing, and I just appreciate the time you have given us as well. I know it has been in excess of the two hours, but I hope you sensed from the questions and the members' interest how important this is to everybody.

Just as a technical note here for a business item on the Committee, the hearing record will remain open for one week instead of the usual two because of the end of the year and so forth. So if any members have any statements or questions for the record we ask that they submit it by Thursday, December 17th, which is a week from today, at 5 p.m.

So with that thank you to everybody, and with that the hearing is adjourned.

[Whereupon, at 12:16 p.m., the hearing was adjourned.]

APPENDIX MATERIAL SUBMITTED

COMMUNITY GYMS COALITION

Statement for the Record

December 10, 2020

Chairman Rubio, Ranking Member Cardin and Members of the Committee:

The Community Gyms Coalition (CGC), representing more than 15,000 small, community gyms across the country, commends you for holding a hearing on the crisis facing small businesses, the Paycheck Protection Program (PPP) and its future. Small gyms and fitness facilities are found in almost every community across the country and are vital to strengthening and maintaining the public's health. The CGC welcomes the opportunity to offer comment on the crisis facing our members and on modifications to PPP which would provide critical support to tens of thousands of small businesses across the country.

Gyms and Fitness Facilities Are Among the Hardest-Hit Small Businesses by Shutdowns

Shutdown mandates and operating restrictions have hit the fitness industry as hard as any other, putting nearly 10,000 local gyms at risk of imminent bankruptcy.¹ In most states, gyms have been among the first businesses forced to close and the last allowed to open, with many shut by government order for more than six months and counting. For those gyms which have been allowed to reopen, most may only operate under severe occupancy restrictions, with a maximum occupancy of 25 to 50 percent of building capacity being the most common restriction.

Closure and stringent operating restrictions have put immense stress on small businesses in the fitness industry. A recent analysis by fitness industry association IHRSA found that up to one-quarter of all fitness facilities could go bankrupt by the end of 2020.² A November survey of more than 1,000 independent, community gyms found that 39 percent do not believe they will survive through 2021 without federal support. With federal support, 88 percent of gyms anticipate survival through 2021.³

PPP Does Not Meet the Needs of Small Community Gyms

Like other hard-hit industries, small gyms and fitness facilities have been unable to fully participate in other federal relief programs due to limitations on the use of funds for their primary

¹ Daniel E. Slotnik and Matthew Sedacca, "Relieved to Be Back at the Gym, but Is It Safe?" New York Times. Retrieved from: <https://www.nytimes.com/2020/10/24/nyregion/nyc-gyms-reopening.html>

² Retrieved from: <https://www.ihrsa.org/about/media-center/press-releases/15-of-health-fitness-clubs-in-the-u-s-permanently-closed/>

³ Retrieved from: <https://gymscoalition.org/new-data-shows-over-a-third-of-local-independent-gyms-will-not-survive-2021-without-federal-relief/>



costs. As the major source of federal support for community gyms, PPP has been consistently identified by community gym owners and operators as requiring revision to meaningfully buttress their small businesses. Specifically, community gym owners and operators have made note of four shortcomings:

Limitations on Use of Funds for Rent

While providing significant compensation and opportunity for many trainers and instructors, many gyms and fitness facilities do not count payroll among their primary costs. Gyms and fitness facilities are often fixed-cost-intensive businesses, the foremost of which costs is often rent. Regulatory limits on how much of a PPP loan or grant may be allocated toward rent places unnecessary strain on fixed-cost-intensive businesses and increases the likelihood of widespread bankruptcies.

Limitations on Payments to Independent Contractors

Many gyms and fitness facilities offer group fitness classes or individual instruction by partnering with independent contractors who specialize in particular exercise methods and approaches. While independent contractors are eligible for PPP loans in their own right, the complexity of the process has left many without support. Additionally, they may have difficulty in accessing a lender for which the benefit of extending the loan surpasses the administrative costs.

General Liability and Business Insurance Costs are not Allowable Expenses

As businesses rooted in physical presence, exertion and movement, gyms and fitness facilities require general liability insurance and business insurance. Community gyms need to be able to continue paying for costs associated with general liability and business insurance; should they lapse in their payments and lose coverage, then they will be unable to operate and will incur serious losses.

Maximum Size of the Loan

The costs mentioned above are significant, but are not exhaustive. Gyms and fitness facilities across the country have been closed or have operated under severe restrictions for nine months, and will likely be closed this coming winter. Accordingly, the funds that they require to stay in business will likely exceed those afforded by the current formula for determining the maximum loan amount.

Simple Modifications to PPP Would Save Tens of Thousands of Small Gyms

Fortunately, many of the deficiencies in PPP identified above are easily remedied. The following solutions would meet the needs of thousands of small, community gyms, would forestall thousands of bankruptcies and would save tens of thousands of jobs across the country:

Create an Alternate Designation for Fixed-Cost-Intensive Businesses

For those businesses for which payroll is not the primary cost, such as gyms and fitness facilities, the maximum loan amount should be determined by the cost of non-payroll expenses instead. For those businesses which have elected this designation, the cap on the allocation of funds for non-payroll expenses would increase.

Modify What Counts as an Allowable Expense

Expenses to keep small gyms and fitness facilities in business through the winter and operational thereafter are essential. These include payments to independent contractors leading classes or instructing clients individually, and costs associated with general liability and business insurance.

Increase the Maximum Loan Amount

Gyms and fitness facilities have faced closures and operating restrictions which few other industries have had to contend with. The impact of these closures and operating restrictions falls inordinately on small gyms; as small businesses, they are less equipped to weather the immense pressures facing the fitness sector. Consequently, they require more support, which can be brought about by increasing the maximum loan amount for PPP loans.

Conclusion

The Senate Small Business Committee and Congress have the opportunity to provide meaningful support to tens of thousands of small community gyms and their trainers across the country. Small gyms are found in almost every community in the country, are essential in the fight against chronic disease, and are valuable partners in improving the public's health. But given the length of the shutdowns and the severity of the operating restrictions following reopening, small community gyms are in dire need of support. As implemented, PPP does not adequately meet their needs. However, simple modifications would drastically increase the likelihood of survival for tens of thousands of small gyms and the jobs and livelihoods they support. As you consider adjustments to PPP and other means of small business relief, the Community Gyms Coalition respectfully requests that you consider the unique needs of small gyms.



Brett Ewer, member, Community Gyms Coalition
Head of Government Affairs, CrossFit LLC
brett.ewer@crossfit.com



December 8, 2020

BY ELECTRONIC TRANSMISSION

The Honorable Marco Rubio
 Chairman
 Committee on Small Business &
 Entrepreneurship
 United States Senate
 Washington, DC 20515

The Honorable Ben Cardin
 Ranking Member
 Committee on Small Business &
 Entrepreneurship
 United States Senate
 Washington, DC 20515

Dear Chairman Rubio and Ranking Member Cardin:

Thank you for holding this important hearing on the future of the Paycheck Protection Program (PPP). The creation of PPP loans in the historic CARES Act was a monumental accomplishment by Congress and a lifeline that saved millions of small businesses and tens of millions of jobs during a severe economic downturn and America's worst public health crisis in 100 years. With almost no time to prepare, hold hearings, or do a long iterative process and with a pandemic-induced economic hurricane crashing down, Congress worked collaboratively to create the PPP. We thank the Committee and the entire Congress for moving swiftly to blunt this economic disaster. Without this decisive action, many more businesses and jobs would have been lost permanently.

As businesses nationwide were shuttered, millions of small businesses and their employees were able to hunker down and wait out the shutdowns thanks to the PPP. As lockdown restrictions were lifted across the country in late spring and early summer, these businesses started reopening, and the economy began to recover. The PPP did what it was designed to do. It held businesses together and kept employees connected to their employers. With small businesses intact the economy was kept in a position where it could recover quickly. Thanks to the PPP many small businesses, instead of facing near certain economic catastrophe, have stabilized to normal levels, or even grown.

But the pandemic is not done. It is intensifying with hospitalizations and deaths rising. Even in places where there is not a government mandated shutdown of small businesses, millions of consumers are curtailing their activities creating de facto shutdowns. The ongoing and intensifying economic disruption is endangering the small businesses that survived the first wave and with them their employees. With a deeper understanding of the course of the disease and with the time to consider many options, Congress can deliver aid that helps small businesses that genuinely need it and in a way that can prevent abuse. Until hundreds of millions of Americans are vaccinated many small businesses and their employees will need help. We urge Congress to provide a second round of PPP aid for small business that will enable injured small businesses to survive and retain their employees through the next several months of the exploding pandemic.

We suggest that a new round of PPP maintain the following characteristics:

- Keep it as simple as possible;
- Ensure capital can be deployed quickly and to all small businesses including in rural areas and other underserved communities;
- Forgive loans used to keep employees with low and medium wages employed;
- Forgive legitimate business expenses associated with adapting to COVID; and,
- Continue to waive the credit elsewhere test because small business will not borrow and put themselves deeper in debt to incur salary expenses for employees whose costs are not being covered by revenues.

We suggest the following changes be made to the next round of the PPP:

- *Injury standard.* Only businesses that have been meaningfully injured should receive taxpayer support. However, business that are no longer going concerns should not receive federal funds.
- *Tax Forgiveness.* Not only should the forgiven PPP loan not be taxes, neither also should the expenses that were paid with the loan. These expenses would not have been incurred, but for the PPP loan. For example, if an employer gets a PPP loan and uses it to pay the salaries of employees that otherwise would have been laid off, then denying the ability to deduct those salary expenses defeats the purpose of the forgiveness and the program.

Thank you again for your commitment to America's small businesses. SBIA looks forward to working with this Committee during the 117th Congress to formulate policies that spur our economy and get businesses back open and Americans back to work.

Sincerely,



Brett Palmer
President

Wall Street Journal**Time for a Second Round of PPP (Michael Faulkender and Stephen Miran, 12.17.20)**

At the onset of the pandemic, when many American small businesses faced mandatory closures and a drastic reduction in revenue, the Paycheck Protection Program offered a crucial financial lifeline. In a two-week period in March and April, more than 10 million Americans filed first-time unemployment claims, and widespread, permanent small business closures and job losses seemed inevitable.

Within a week of the passage of the Cares Act, the Small Business Administration, in consultation with the Treasury Department, launched PPP, injecting liquidity into businesses around the country. Very quickly, the number of Americans filing unemployment claims each week began to decline significantly. This wasn't a coincidence.

PPP was designed to facilitate stay-at-home orders while simultaneously sustaining America's small businesses and the jobs they provide. By allowing workers to comply with public-health instructions while preserving the relationships between employers and employees, we could prevent layoffs and minimize skill degradation.

The retention of pre-existing employment relationships was necessary to maximize the chances of a V-shaped recovery once the economy was allowed to reopen. PPP had the further benefit of reducing strain on state-administered unemployment-insurance systems and preventing the 25% unemployment rates that many experts were forecasting. The historic speed and strength of the recovery since May has underlined that in a recession preserving jobs and preventing layoffs is far easier than creating new jobs.

PPP coverage was broad, reaching every pocket of the American small-business community. More than 80% of eligible small-business payroll was supported, which amounted to more than 51 million jobs by the time the second tranche of funding closed. By matching PPP loans to census tracts, we found that 27% of PPP funds went to low- and moderate-income areas, commensurate with the 28% of the American people who live in these areas.

Over the summer, academic researchers produced quick evaluations of PPP. Surprisingly, they generally found very small—potentially zero—effects from PPP on jobs, implying that nearly all of those 51 million workers would have kept their jobs even in the absence of PPP.

How could such a finding be possible? Economic theory and evidence suggest that smaller businesses are the most vulnerable to any economic shock. Compared with large businesses, they have smaller cash buffers, limited access to lending and credit markets, and less bargaining power with suppliers and other business partners, and they may face greater difficulties hiring and retaining workers.

There is ample evidence that widespread business failure ought to have occurred. For instance, a 2016 JPMorgan Chase report found that 75% of small businesses had enough cash to last less than 62 days without cash flow. Indeed, perceptions in markets have been that PPP was central to saving the economy; JPMorgan CEO Jamie Dimon suggested that PPP may have saved 35 million jobs. The belief that PPP saved few or no jobs suggests that there would have been few bankruptcies without PPP, and that all small businesses had the ability to withstand months of revenue declines without layoffs. Made explicit, that assumption stretches credibility.

Most researchers find such small effects from PPP because they study firms just above and just below

the eligibility threshold for PPP loans of 500 employees and look for differences. That means their results are valid for midsize firms of about 500 employees, which are often large enough to be more resilient to shocks, unlike smaller firms. But these results say little about the true targets of PPP, which were much smaller businesses. A 10-person firm is less capable of surviving a shock than a 500-person firm. And a careful examination of PPP data indicates that roughly 75% of loans went to firms with nine or fewer employees. In fact, less than 0.4% of loans, worth 11% of PPP dollars, went to firms with more than 250 employees.

To overcome this difficulty, in research available on Treasury's website, we have explored variation in when loans were received. There is evidence that because of differences in the speed with which banks were able to disburse PPP loans, some regions received loans weeks before others. If PPP really saved jobs, the areas where loans arrived early should have seen several weeks of superior job performance, followed by eventual convergence of labor markets across regions as PPP loans saturated the country.

We found exactly that pattern. Counties that received PPP loans early saw smaller unemployment jumps in April and May. The differences among regions diminished over the summer as PPP expanded and disappeared altogether by the fall. We find that moving from the 25th percentile to the 75th percentile of counties by early PPP penetration improved the insured unemployment rate in the spring by more than 12 percentage points, the equivalent of 18 million jobs when extrapolated nationally. Such numbers would imply the cost of each job saved was less than \$30,000, indicating that PPP not only was highly effective at saving jobs, but also did so in an extremely cost-effective manner.

PPP's scale and speedy implementation were crucial to avoiding a slow, yearslong recovery like the one that followed the 2008-09 financial crisis. PPP is one of the main reasons why the unemployment rate peaked at only 14%, and why it took a mere six months to decline by more than half from its peak—a feat that took six years under the previous administration.

These results underline why Treasury, the SBA and many lawmakers of both parties have called for an extension of PPP. Its success has been pivotal in supporting the recovery. Moreover, the large effects we find for all firms, combined with the small effects found by other researchers for larger firms, suggest that future rounds of PPP should be targeted at smaller firms. The best use of taxpayer dollars is to target firms most in need of assistance.

As the largest economic-support program for small businesses in American history, PPP quickly delivered critical economic help for American workers. The evidence shows that PPP provided immediate economic relief to the businesses most in need, saving millions of jobs, staving off bankruptcy risk, and helping to stop an economic depression dead in its tracks. As state and local governments have begun to restore restrictions on small businesses, the time is right for Congress to authorize a second round of PPP.

Mr. Faulkender is assistant Treasury secretary for economic policy. Mr. Miran is Treasury's senior adviser for economic policy.