

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2561 Rayburn House Office Building
Washington, DC 20515-0515

MEMORANDUM

TO: Members, House Small Business Committee
FROM: Nydia Velázquez, Chairwoman
DATE: July 15, 2020
RE: Full Committee Hearing: “Long-Lasting Solutions for a Small Business Recovery”

The House Small Business Committee will hold a hearing entitled, “Long-Lasting Solutions for a Small Business Recovery” on **Wednesday, July 15, 2020, at 1 p.m. via WebEx**. The hearing will allow members to learn more about some of the recovery efforts to stimulate small business growth following the Great Recession, barriers to recovery, and some of the industries that have been disproportionately impacted by COVID-19.

Witnesses include:

- Mr. Brett Palmer, President of Small Business Investor Alliance
- Ms. Amanda Cohen, Owner, Dirt Candy, Testifying on behalf of the Independent Restaurant Association
- Dr. Lisa Cook, Professor of Economics at Michigan State University
- Mr. Pete Blackshaw, CEO Cintrifuse

Background

The coronavirus pandemic (COVID-19) began in late 2019 and has caused widespread sickness, death, and economic hardships in the U.S. Since January 20, 2020 when the first known case of COVID-19 was identified in Washington state, the disease has spread rapidly through the U.S., infecting more than 2.6 million individuals and has resulted in at least 125,800 deaths.¹ Public health measures taken to stop the pandemic—including stay-at-home orders, school and business closures, and bans on social gatherings—caused an unprecedented decline in economic activity and a surge in job losses. The unemployment rate, which was previously at a 50-year low, rose to 14.7 percent in April 2020—the highest rate since the Great Depression.²

America’s 31.7 million small businesses have faced, and many are still facing, a crisis. Almost half (42%) of small business owners reported having to close their business as a result of COVID-19, according to a survey by the Society for Human Resources Management (SHRM).³ Three-out-

¹ N.Y. Times, *Coronavirus in the U.S.: Latest Map and Case Count*, N.Y. Times, (Jun. 29, 2020), <https://www.nytimes.com/interactive/2020/us/coronavirus-us-cases.html?action=click&module=Spotlight&pgtype=Homepage>.

² U.S. Bureau of Labor Statistics, *The Employment Situation--May*, U.S. Dep’t of Labor, (Jun. 2020).

³ *Navigating COVID-10: Impact of the Pandemic on Small Businesses*, SOC’Y FOR HUM. RESOURCES MGMT., <https://shrm.org/hr-today/trends-and-forecasting/research-and-surveys/Documents/SHRM%20CV19%20SBO%20Research%20Presentation%20v1.1.pdf>

of-four (74%) small businesses experienced a decrease in revenue since March, according to the U.S. Census Bureau's Small Business Pulse survey.⁴ The National Main Street Center estimates that up to 7.5 million small businesses are at risk of permanent closure from COVID-19.⁵

Blunting the pandemic's impact, the Federal government funded over \$669 billion in grants and loans through the Paycheck Protection Program (PPP), the Economic Injury Disaster Loan (EIDL) program, and the Emergency EIDL grant program.⁶ Despite this aid, many small businesses are still at risk of permanent closure. Since small businesses are the backbone of the U.S. economy, composing nearly half of U.S. private sector employment and generating 44 percent of U.S. economic activity,⁷ ensuring that these businesses fully recover from the COVID-19 public health emergency is crucial to reviving the U.S. economy.

Small Business Relief Efforts

- On March 6, 2020, Congress passed the Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020,⁸ which made the COVID-19 public health emergency a declarable disaster and allowed the Small Business Administration (SBA) to make EIDL loans to eligible small businesses.⁹
- On March 27, 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act,¹⁰ which established the PPP and provided \$349 billion to fund the program. CARES also provided an additional \$10 billion for Emergency EIDL grants.
- Following the exhaustion of funding for PPP on April 24, 2020, Congress passed the Paycheck Protection Program and Health Care Enhancement Act (PPHCEA) which appropriated an additional \$310 billion for the PPP, \$50 billion for EIDL loans, and \$10 billion for Emergency EIDL grants.
- On June 5, 2020, the Paycheck Protection Program Flexibility Act (Flexibility Act),¹¹ established a minimum maturity of five years for PPP loans, extended the covered period during which a borrower may use PPP funds for certain expenses, and extended the forgiveness period for PPP loans from eight to 24 weeks.
- On July 1, 2020, the House passed an extension of the PPP program through August 8, 2020, which became law on July 4, 2020.¹²

The Great Recession

The Great Recession began at the end of 2007 and lasted through June 2009. Small businesses

⁴ *Small Business Pulse Survey*, U.S. CENSUS BUREAU, (Jun. 18, 2020), <https://portal.census.gov/pulse/data/#weekly>.

⁵ *The Impact of COVID-19 on Small Businesses: Findings from Main Street America's Small Business Survey*, NAT'L MAIN STREET CTR., (Apr. 9, 2020), <https://www.mainstreet.org/blogs/national-main-street-center/2020/04/09/new-report-the-impact-of-covid-19-on-small-busines>.

⁶ As of June 25, 2020, 4,740,945 PPP loans have been approved for a total of \$517 billion, with an average loan size of \$109,071. And as of June 21, 2020, the SBA has approved 1,775,539 EIDL loans totaling \$133,307,061,331 and 3,740,346 EIDL emergency grants in the amount of \$12,314,661,000.

⁷ OFFICE OF ADVOCACY, FREQUENTLY ASKED QUESTIONS, U.S. SMALL BUS. ADMIN. (Sep. 2019) <https://cdn.advocacy.sba.gov/wp-content/uploads/2019/09/24153946/Frequently-Asked-Questions-Small-Business-2019-1.pdf>.

⁸ P.L. 116-123.

⁹ 15 U.S.C. § 632 (2017).

¹⁰ P.L. 116-136.

¹¹ P.L. 116-142.

¹² P.L. 116-147.

were hit particularly hard during this time, due to two reasons: first, sector concentration—particularly the service industries—and second, the lack of available credit to these firms.¹³

In response to these stressors, Congress enacted P.L. 111-5, the American Recovery and Reinvestment Act of 2009 (ARRA), which provided the SBA with \$375 million to temporarily reduce fees on 7(a) and 504 loans, and increased the 7(a) program’s maximum loan guaranty percentage from 85 to 90 percent for all standard 7(a) loans through September 30, 2010, or until available funds were exhausted, was enacted.¹⁴ Over the course of the next couple of years, Congress extended these provisions multiple times, and provided approximately \$1.2 billion for SBA loan programs through January 3, 2011. One such extension included, the Small Business Jobs Act of 2010,¹⁵ which also increased the loan limits for 7(a) loans from \$2 million to \$5 million; increased 504 loans from \$1.5 million to \$5.5 million; and increased microloan limits from \$35,000 to \$50,000. Additionally, it temporarily increased 7(a) express loans from \$300,000 to \$1 million to increase working capital availability for small businesses. Following the enactment of the law, the number of SBA loans increased 12.5 percent and the value of SBA loans increased 45.4 percent to \$30.5 billion—the largest amount of lending in the agency’s 60-year history.¹⁶

SBA also focused on how young firms could contribute to the economic recovery. Through the Start-Up America Initiative (2012), SBA aimed to accelerate entrepreneurship through policies that unlock access to capital for small businesses, create mentorship programs, accelerate lab-to-market innovation, and help make the government work better for entrepreneurs. As part of this initiative, the SBA launched two new Small Business Investment Company (SBIC) programs—the Early-Stage Innovation Fund and the Impact Investment Fund—which guaranteed an additional \$1 billion in private investments in underserved markets and emerging sectors. In FY17, the five Early-Stage SBICs invested \$267.5 million in 82 small businesses, while nine Impact Investment SBICs manage more than \$905 million in assets and invested in 81 small businesses.¹⁷

Barriers to Recovery from the COVID-19 Pandemic

Thus far, the economic contraction and unemployment effects of COVID-19 appear to be larger than the Great Recession. Multiple economists compare the COVID-19 pandemic to a sudden natural disaster, rather than a slow-moving recession.¹⁸ Beyond being larger, the COVID-19 pandemic presents additional issues for small businesses discussed below.

Shutdowns and Social Distancing

The public health measures put into place in March to mitigate COVID-19 have gravely impacted the nation’s small businesses. In a matter of days, cities, counties, and states “paused” economic activity and forced small businesses to either shut down or significantly adapt their business model

¹³ Ayşegül Şahin, et al., *Why Small Businesses Were Hit Hard by the Recent Recession*, FED. RES. BANK OF N.Y. CURRENT ISSUES IN ECON., no. 4, 2011.

¹⁴ U.S. Gov’t Accountability Off., GAO-10-298R SBA’s Economic Stimulus Provisions, Gov. Account. (Jan. 19, 2010).

¹⁵ P.L. 111-240.

¹⁶ ROBERT JAY DILGER, CONG. RES. SERV., R43083, SBA ASSISTANCE TO SMALL BUSINESS STARTUPS: CLIENT EXPERIENCES AND PROGRAM IMPACT (2020).

¹⁷ *Id.*

¹⁸ Louise Sheiner, *How Does the Coronavirus Pandemic Compare to the Great Recession, and What Should Fiscal Policy Do Now?*, BROOKINGS, (Mar. 12, 2020), <https://www.brookings.edu/blog/up-front/2020/03/12/how-does-the-coronavirus-pandemic-compare-to-the-great-recession-and-what-should-fiscal-policy-do-now/>.

to stay open. Small businesses in high-personal-contact sectors—such as the hospitality and retail sectors—were the hardest hit, suffering year-over-year revenue decline of nearly 70 percent.¹⁹

Even though many states that had imposed stay-at home or shutdown orders have begun lifting these orders, there remains a real risk that many states may have to pause their reopening or even issue new shut-down orders in order to stop the spread of COVID-19. For example, the state of Texas paused their reopening just 55 days after opening restaurants and other businesses.²⁰ Because of these evolving conditions, nearly half (41%) of small businesses believe that it will be more than six months before their business operations return to normal.²¹ And even when states and localities re-open, there is only a modest increase in economic activity—with spending and employment still well below average—according to economist Raj Chetty.²²

Financial Conditions and Liquidity

Small businesses, especially microbusinesses, tend to have volatile and irregular cash flows. Yet healthy cash flow and access to liquidity are critical predictors of a businesses' survival. Businesses with more cash are better equipped to handle financial shocks. Yet, the J.P. Morgan Chase Institute found that most small businesses entered into the COVID-19 crisis with only 15 days of cash reserves,²³ and that small business cash balances dropped 12.7 percent after the onset of COVID-19 across all industries, but in the restaurant and hospitality in particular.²⁴ Furthermore, they found that the cash balances of minority owned businesses declined further than White-owned businesses, with Black-owned firms cash reserves decreasing by 26 percent, while Asian-owned firms cash reserves declined by nearly 22 percent in March 2020 compared to March 2019.²⁵

Structural Racial and Gender Disparities

The COVID-19 public health and economic crisis has disproportionately affected Black, Hispanic, and Asian-owned businesses, in addition to women-owned businesses.²⁶ Both minority-owned

¹⁹ Joseph Parilla, et al., *How Local Leaders Can Stave Off a Small Business Collapse from COVID-19*, Brookings, (Apr. 3, 2020), <https://www.brookings.edu/research/how-local-leaders-can-stave-off-a-small-business-collapse-from-covid-19/>; Daniel Wilmoth, *Small Business Facts: Restaurants and Bars Staggered by Pandemic*, U.S. Small Bus. Admin., (Jun. 2020), <https://advocacy.sba.gov/2020/06/29/small-business-facts-restaurants-and-bars-staggered-by-pandemic/>; Eric Amel, et al., *Independent Restaurants Are a Nexus of Small Businesses in the United States and Drive Billions of Dollars of Economic Activity that is at Risk of Being Lost Due to the COVID-19 Pandemic*, (Jun. 10, 2020),

<https://www.saverestaurants.com/report/#:~:text=First%20of%20Its%20Kind%20Report&text=The%20%24120B%20Independent%20Restaurant,Read%20the%20full%20report%20here.>

²⁰ Manny Fernandez & Sarah Mervosh, *Texas Pauses Reopening as Virus Cases Soar Across the South and West*, N.Y. Times, (Jun. 25, 2020), <https://www.nytimes.com/2020/06/25/us/texas-coronavirus-cases-reopening-Greg-Abbott.html>.

²¹ U.S. Census Bureau, *Small Business Pulse Survey*, (June 25, 2020), <https://portal.census.gov/pulse/data/#weekly>.

²² Raj Chetty, et al., *How Did COVID-19 and Stabilization Policies Affect Spending and Employment? A New Real-Time Economic Tracker Based on Private Sector Data*, NBER, (June 17, 2020), https://opportunityinsights.org/wp-content/uploads/2020/05/tracker_paper.pdf.

²³ DIANA FARRELL, ET AL., PLACE MATTERS: SMALL BUSINESS FINANCIAL HEALTH IN URBAN COMMUNITIES, J.P. MORGAN CHASE INST. (Sep. 2019), <https://institute.jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/institute/pdf/institute-place-matters.pdf>.

²⁴ DIANA FARRELL, ET AL. SMALL BUSINESS FINANCIAL OUTCOMES DURING THE ONSET OF COVID-19, J.P. MORGAN CHASE INST. (June 2020), <https://institute.jpmorganchase.com/institute/research/small-business/small-business-financial-outcomes-during-the-onset-of-covid-19>.

²⁵ *Id.*

²⁶ See Robert W. Fairlie, *The Impact of COVID-19 on Small Business Owners: Evidence of Early-Stage Losses from*

businesses and women-owned businesses were particularly vulnerable to COVID-19, given their concentration in personal services firms, lower cash reserves, and less access to credit.

Further, minority and women business owners have struggled to receive pandemic relief from the Federal government. A UnidosUS and Color of Change survey found that only one-out-of-ten of Black and Hispanic-owned businesses received the funding they requested through Federal government relief programs and a majority (51%) of Black and Hispanic business owners received less than \$20,000 of assistance.²⁷ Over one-third (36%) of Hispanic business owners reported not being eligible for the Federal government programs and 42 percent of Black business owners did not believe they would be approved for the Federal government programs.²⁸ Furthermore, a survey conducted by Builders + Backers found that one-in-four (23%) women-owned businesses were shut out of the PPP loan application process.²⁹ Even more troubling, for the three-out-of-four women that were able to apply for a PPP loan, they found that women asked for 40 percent less than the average small business owner, or \$0.62 for every dollar lent to a man.³⁰

Consumer Spending and Unemployment

As stores closed and individuals were laid off, Americans dialed back their spending in March and April of 2020—even though personal incomes rose 10.5 percent from the payment of \$3 trillion in economic stimulus checks.³¹ According to the Bureau of Economic Analysis, consumer spending declined 12.6 percent in April—the steepest drop since the government began keeping records 60 years ago.³² Even though consumer spending rebounded eight percent in May, continued disruptions to travel, decreased mobility, and the potential for additional closure orders could cause further drops in consumption. Economists predict that without continued economic stimulus, consumption and spending will continue to decline—further harming the nation’s small businesses.³³

Personal Protective Equipment

As the COVID-19 pandemic has progressed across the country, the need for personal protective equipment (PPE)—such as masks, gowns, gloves, and hand sanitizer—has skyrocketed. As COVID-19 cases rise, there has been a correlated increase in demand from healthcare and other front-line workers.³⁴ The rise in demand also means that small businesses who are required to

the April 2020 Current Population Survey, NBER, (Jun. 2020), <https://www.nber.org/papers/w27309>.

²⁷ *Federal Stimulus Survey Findings*, UNIDOS US & COLOR OF CHANGE, (2020), <https://theblackresponse.org/wp-content/uploads/2020/05/COC-UnidosUS-Abbreviated-Deck-F05.13.20.pdf> (noting that the African American small business owner survey sample size is small, and results are discretionary).

²⁸ *Id.*

²⁹ *How Did Women-Owned Businesses Fare in the Paycheck Protection Program?*, Builders + Backers, (Apr. 23, 2020),

<https://static1.squarespace.com/static/5dc04634e8b3ad2e02482fcb/t/5ea1b4644e80966acf548ae8/1587655780239/d.Women-Owned+Business+PPP+Survey+Results.pdf>.

³⁰ *Id.*

³¹ Nelson Schwartz, *Aid Swelled Incomes, But Spending Still Sawa “Wild” Drop*, N.Y. TIMES, (May 29, 2020), <https://www.nytimes.com/2020/05/29/business/economy/coronavirus-consumer-spending.html>.

³² Bureau of Economic Analysis, *Consumer Spending*, U.S. Dep’t of Commerce,

<https://www.bea.gov/data/consumer-spending/main#:~:text=Consumer%20spending%2C%20or%20personal%20consumption,monthly%20estimates%20of%20consumer%20spending>.

³³ Chetty, *supra* note 22.

³⁴ Jessica Glenza, *The New Gold: Demand for PPE Soars Amid Shortages as US Cases Rise*, THE GUARDIAN,

purchase PPE for their workers, and to comply with local and state laws, must pay more for PPE—if they are even able to locate available supplies. Thus, further exacerbating the liquidity of already cash-strapped businesses.

Policy Proposals

Since March, the Committee has held several hearings to explore how COVID-19 is impacting the nation’s small businesses. As a result of these hearings and the continued pandemic, the Committee is exploring additional policy proposals to best support small businesses, including:

Reviving ARRA fee waivers and guarantee increases

As discussed earlier, ARRA temporarily reduced fees on 7(a) and 504 loans, and increased the 7(a) program’s maximum loan guaranty percentage from 85 to 90 percent for all standard 7(a) loans.³⁵ These proposals made loans less expensive for borrowers and less risky for lenders, ultimately putting more money in the hands of small businesses during the Great Recession. The Committee will examine whether the revival of these proposals would be timely given the economic uncertainty stemming from the pandemic.

Enhancing the SBIC Program

Similarly, SBA’s Small Business Investment Company (SBIC) program could be enhanced to drive long-term capital into markets traditionally not served by venture capital and private equity. Proposals include incentivizing recovery investment to expand the reach of the SBIC program to smaller businesses and more diverse communities, who have been disproportionately impacted by COVID-19 and have been underserved by existing SBA programs. To address the need for more patient capital and a gap in SBA’s program line-up resulting from the expiration of the Participating Securities program, the Committee will also explore ways to leverage the SBIC program to drive long-term equity financing to start-ups and entrepreneurs.

Additional Stimulus Legislation

Any additional COVID-19 legislative packages should prioritize lending and relief to the smallest businesses, as well as underserved businesses, given that these businesses had trouble accessing or were denied PPP and EIDL loans and grants. Prioritizing these entities will help to supercharge recovery efforts, spur job growth, and stimulate the economy.

Conclusion

Prior to COVID-19, America’s small firms were growing and outpacing larger businesses in net job creation. But today, they are facing historic challenges and severe financial vulnerabilities from the public health emergency. Moving forward, Congress must ensure that America’s small businesses have the capital and support to fully recover from this unprecedented public health and economic disaster.

(Jun. 29, 2020) <https://www.theguardian.com/world/2020/jun/29/demand-ppe-soars-again-amid-shortage-us-cases-rise>.

³⁵ GAO-10-298R, *supra* note 14.