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Congress of the United States
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HOUSE ARMED SERVICES COMMITTEE
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HOUSE SCIENCE, SPACE, AND
TECHNOLOGY COMMITTEE
SUBCOMMITTEE ON ENVIRONMENT, CHAIR
SUBCOMMITTEE ON RESEARCH & TECHNOLOGY

May 19, 2020

The Honorable Steven Mnuchin
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington D.C. 20220

The Honorable Jovita Carranza
Administrator
U.S. Small Business Administration
409 3rd Street SW
Washington, D.C. 20416

Dear Secretary Mnuchin and Administrator Carranza:

Since the beginning of the coronavirus pandemic, my office has been inundated with calls from small business owners struggling to make ends meet as they comply with necessary public health restrictions. The programs established under the CARES Act, including the Paycheck Protection Program (PPP) and the enhanced Economic Injury Disaster Loan (EIDL) program, were initially met with overwhelming demand in New Jersey by a small business community desperately in need of access to capital in order to survive this crisis.

However, after several weeks, it has become clear that the implementation of these programs has only added to the frustration of many small business owners. In response, my office initiated a survey of small business owners to solicit feedback on their experiences with the PPP and EIDL programs, including: status of their applications, unanswered questions, recommended changes, and challenges they face in preparing to reopen.

We received 342 responses to the survey from 50 different towns across New Jersey's 11th Congressional District. Almost 74% of the responses were from businesses with 10 or fewer employees, representing our smallest employers that are the backbone of our communities. And they represented a wide variety of businesses and sectors of the economy - florists, bakeries, media companies, bookkeepers, dance studios, physical therapists, talent scouts, non-profits, dental offices, architects, and small manufacturers, just to name a few.

A number of common themes clearly emerged from the feedback of the small businesses in my district. This input is critical to understanding key issues that must be addressed in order for small businesses to survive this crisis, including:

Communication and Transparency: Small business owners are frustrated with the lack of communication about the PPP and EIDL programs. We heard from many owners who still have questions about eligibility and applying, including some who mistakenly believed they were ineligible. Others who did apply faced significant challenges in contacting their lender or the SBA, leaving them with no knowledge of where they stand in the process or when they will receive the funding they desperately need. This information is key to decision making for our businesses, and as one small business owner said, "Not hearing back [and] not being

able to check on the status of these applications is anxiety-provoking.” Our small businesses have enough to worry about and manage during this crisis, lack of clarity on the status of their PPP loan should not add to this anxiety.

Loan Forgiveness Provisions: There has been much confusion and criticism regarding the loan forgiveness provisions under the PPP. First, the lack of clarity in guidelines has many business owners rethinking whether participating in the PPP is worthwhile, as they fear ending up burdened with debt if the loan is not forgiven. In fact, I have heard from several certified public accountants who, despite their expertise, find the current guidance to be vague and inadequate. Second, the 8 week covered period and the 25% limit on non-payroll expenses have made the program a poor fit for business with higher rent or fewer low-wage employees. This was a concern brought up repeatedly in our survey given the high cost of living in New Jersey. This concern was also confirmed in a recent report by the SBA Inspector General which found that many borrowers would not be able to meet the payroll requirement. Third, while the program was well-intended in its effort to keep workers off unemployment insurance, over half of the business owners in this survey had no choice but to lay off or furlough workers. As they look toward the obstacles to reopening, many of these owners find it nonsensical to rehire employees while they are mandated to be closed, and would prefer access to more flexible capital to address their unique challenges as they reopen.

Access and Prioritization: Respondents to the survey consistently raised concerns with discretionary issues in the PPP application and approval processes that allowed certain companies to gain prioritized access. It has been widely reported that larger companies initially had greater access to PPP funds, due in part to inhouse resources they could devote to the process and in some cases to their pre-existing relationships with large lenders. Smaller businesses were often left struggling to navigate the application process and find a lender that would accept their application. Many anxiously waited (or continue to wait) for a response from a lender, long after loans for their larger peers had already been approved. In fact, at the time of our survey, only one third of the respondents who had applied for the PPP had received their funds. While the latest data from the SBA suggests that smaller companies have done better under the second round of funding, I am still hearing from companies who were denied because their loan would have amounted to under \$10,000.

Disproportionate Allocation of Funding: It has been very disheartening to see that the areas of the country hardest hit by the economic impact of the coronavirus did not receive a proportional amount of PPP funding. While the economic impact of coronavirus has been felt across the country, it does not make sense that less than 20% of NJ businesses received PPP funds in the initial round of funding. In some less affected states, that figure is well over 50%. Reports by the Federal Reserve Bank of New York and the National Bureau of Economic Research (NBER) found inconsistencies in where the PPP funds flowed relative to the health or economic burden of the virus. The NBER report notes that “if anything, funds were disproportionately allocated to geographic areas that were less hard hit by the virus.” This was driven in part by the types of lenders participating in the program. The Federal Reserve Bank of New York found a strong relationship between the share of community banks in a given state and the share of loans received under PPP. Conversely, the NBER noted that while the four largest banks accounted for 36% of the pre-virus small business lending market, they accounted for a mere 3% of PPP loans. According to respondents to our small business survey, small businesses who applied through a community bank were more likely to have already received their PPP funding at the time they were surveyed than those who applied through a larger commercial bank. Clearly, we need to better understand how the relative market share of large commercial banks and community banks may have affected access to relief funding, and any other systemic issues that may have affected the disproportionate allocation of funding to states like New Jersey.

Challenges to Reopening: Despite these federal efforts to assist small businesses during the pandemic, many respondents indicated that their businesses continue to face serious challenges to staying viable. We heard three consistent themes on this issue, including a lack of cashflow and capital to restart, challenges

heard three consistent themes on this issue, including a lack of cashflow and capital to restart, challenges imposed by social distancing and other restrictions, and depressed consumer demand due to concerns about being in public establishments. In a recent recovery survey by the New Jersey Business & Industry Association (NJBIA), employers listed the following as the top struggles for their businesses: meeting payroll costs, paying the rent, and ensuring worker safety. And close to three quarters of participants indicated that if only a 50% partial reopening of business facilities is allowed, it would take more than 6 months break even, if they ever could.

In response to these findings, I am requesting that the Treasury and the SBA use its existing authority to implement the following in an effort to provide more effective relief to our small businesses:

- Create a portal on the SBA's website for EIDL status updates, similar to the one the IRS has used for Economic Impact Payments;
- Issue and promote user-friendly documents showing side-by-side comparisons of topline information and eligibility requirements for all available programs;
- Reserve a specified time each morning where the SBA may only process PPP approvals for businesses with 10 or fewer employees;
- Require that lenders submitting batches of PPP applications for SBA approval must include an appropriate percentage of companies with 10 or fewer employees;
- Require that no lender may deny an application based on a minimum loan size;
- Release the expected additional guidance on loan forgiveness as soon as possible, and create user-friendly versions with topline information;
- Extend the 8 week covered period under PPP or allow the start to be delayed for up to 60 days from when the loan is received;
- Eliminate the requirement that only 25% of a PPP loan can go towards non-payroll expenses;
- Expand the list of eligible costs under PPP to include those needed to restart operations, for example inventory, disinfectants, and Personal Protective Equipment;
- Raise the maturity on PPP loans to no less than 5 years; and
- Examine the underlying causes of the disproportionate allocation of PPP funding by state, and make recommendations to resolve these issues.

In the effort to get relief out to our small businesses, it is critical that we respond to the concerns of our small business owners by addressing the gaps and inefficiencies they have identified in the PPP and EIDL programs. The crisis they face is no fault of their own and their perspectives must be valued as we manage the economic recovery.

Thank you for your consideration of these recommendations. If you have any questions please do not hesitate to reach out to me or my office.

Sincerely,



Mikie Sherrill
Member of Congress (NJ-11)