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Statement for the Record

“Member Day Hearing on COVID-19 Response and Recovery”

Committee on Small Business

April 23, 2020

Thank you, Chairwoman Velázquez and Ranking Member Chabot, for holding this hearing today.

Across our nation, the COVID-19 pandemic has devastated small businesses. In New York City, a statewide stay-at-home order to slow the spread of COVID-19 has shuttered all non-essential small businesses for over a month. Small businesses are the lifeblood of New York City’s economy. Of the over 200,000 businesses located in the city, approximately 98 percent have fewer than 100 employees, and 89 percent have fewer than 20 employees. The impact of the city’s small business closures is evident in the over 2,000 percent increase in unemployment claims from April 2019.

In response to this crisis, Congress took action to support our nation’s small businesses by providing $349 billion for Small Business Administration loan programs in the CARES Act. Unfortunately, over the past month, it has become apparent that these programs are not being implemented as Congress intended. The SBA and Treasury Department have been slow to issue formal PPP guidance to borrowers and lenders. This lack of guidance has resulted in large financial institutions prioritizing their wealthiest customers over vulnerable small businesses without significant lines of credit. Additionally, the SBA has issued rules to restrict PPP eligibility and added new requirements that were not included in the CARES Act. The SBA established a harmful 75/25 percent rule for PPP that prohibits using more than 25 percent of the funding for non-payroll costs. This rule change is devastating for small businesses in high rent areas like New York City and must be reversed. The SBA also issued a rule that specifically denies PPP eligibility to housing cooperatives and condominiums, threatening the financial stability of thousands of common interest communities across New York City. The SBA’s implementation of EIDL Emergency Advances has also fallen far short of what the CARES Act required. Under the law, a borrower can request an advance on a loan of up to $10,000 from the SBA, which the SBA must then distribute within three days of the request. According to data released by the SBA, the advances have only averaged $4,360 and have often taken weeks to disburse. Many of my constituents are still waiting to receive their advances.

While I believe the Paycheck Protection Program and Health Care Enhancement Act is an important step forward, I am, however, all too aware that this infusion of money simply will not be enough to meet demand, and many of the problems my constituents have raised with PPP
and EIDL are not addressed by this legislation. Far more must be done to guarantee that help is not being withheld from those in need.

Congress must make it clear that the current state of the SBA’s loan programs is unacceptable. The SBA should immediately expand PPP and EIDL eligibility to the level that Congress intended in the CARES. The SBA must also work to improve its PPP application to make it accessible for nonprofits, self-employed individuals, and microbusinesses. Currently, the PPP application requests that nonprofits fill out a field stating the name of the owner, despite nonprofits not having an owner. When these nonprofits attempted to submit their application, they were automatically denied because they were not the owner of the nonprofit. Additionally, the application requires that the self-employed include payroll records, in spite of payroll records not existing for the self-employed. Congress also must ensure these non-traditional employers, which have been largely deprived of PPP funding, are prioritized in future stimulus packages with a designated pipeline of funding.

Congress should also consider whether or not to expand PPP or to create a similar program to provide low-interest, forgivable loans to certain types of nonprofits who may have more than 500 employees or provide educational or support services. Organizations like cultural nonprofits provide good-paying jobs and contribute billions to the economy every year, but they are locked out of PPP’s forgivable loans because of their size. These organizations operate on narrow margins with little endowment and cannot carry loans. Similarly, many nonprofits are providing education and support services to other employers but are locked out of the PPP. We must ensure they are able to survive the pandemic as well.

Congress must work with the SBA to improve PPP and EIDL flexibility to support the millions of small businesses across the nation in high rent areas. Historically, the SBA has increased the percentage of non-personnel costs like commercial rent under its loan programs in the aftermath of a disaster. It is unacceptable that the SBA has instead acted against the intention of the CARES Act and decreased the percentage to 25 percent. I am also deeply troubled by the SBA’s lack of transparency in its reporting of program results to Congress. Congress needs to know how this money is being allocated in order to carry out its oversight responsibilities and ensure that small businesses in need are being assisted. Finally, Congress should work with the SBA to determine how the COVID-19 pandemic is impacting small businesses with EIDL debt from previous disaster declarations. While the SBA is paying the principal, interest, and fees of previous non-disaster loans, small businesses with prior EIDLs continue to pay interest on their loans and receive monthly payment notices from the SBA. Congress and the SBA should be doing everything in their power to alleviate the burden for small businesses, particularly small businesses that have been recently impacted by multiple disaster declarations.

Thank you again, Chairwoman Velázquez and Ranking Member Chabot, and I look forward to continuing to work with you and this Committee to ensure all eligible small businesses have access to these critical assistance programs.