

Congress of the United States
Washington, DC 20515

May 12, 2020

The Honorable Nancy Pelosi
Speaker
U.S. House of Representatives
Washington, DC 20515

The Honorable Kevin McCarthy
Minority Leader
U.S. House of Representatives
Washington, DC 20515

Dear Speaker Pelosi and Leader McCarthy:

We write to urge you to include language in any upcoming stimulus legislation establishing additional protections leveling the playing field for small businesses with respect to the Paycheck Protection Program (PPP). The current structure of the loan program can be improved to ensure lending to the small businesses most at risk of financial ruin as a result of the COVID-19 pandemic, and not just those with existing lending relationships at major financial institutions. We applaud recent efforts from leadership to leverage the lending capabilities of community lenders to best target small businesses in areas historically neglected by the large banks. Legislative initiatives like this will promote a more equitable distribution of federal funds, but large banks will not fundamentally alter their business model in the absence of a more explicit directive from the federal government. Small businesses will only have an opportunity to access PPP loans if we couple lender-based requirements with analogous borrower-based requirements to guide private lender decisions. To do so, the next iteration of PPP should specifically allocate funds for borrowers with less than \$1 million in annual revenue, as well as borrowers with fewer than 50 employees.

The coronavirus pandemic and the necessary social distancing policies have pushed smaller businesses to the brink of financial ruin. This crisis has created an unprecedented economic crisis with over 30 million Americans losing their jobs in just over a month erasing all job gains from the recovery.¹ In a period of historically low interest rates, large corporations with access to bank loans and the capital markets have optionality in their battle to stay afloat. Small businesses, on the other hand, do not have such flexibility as they operate on smaller margins that cannot similarly accommodate unexpected disruptions in business. Nearly a quarter of all small businesses have already shut down operations temporarily with an additional 40% saying they are likely to do so in the next two weeks.² One survey of small business owners and entrepreneurs reported two-thirds of small businesses may close their doors permanently if the coronavirus pandemic continues over the next several months. With experts saying social distancing protocols may need to remain in place through May and potentially even longer, this could mean as many as 7.5 million small businesses risk closing permanently due to the financial trauma caused by the virus.³ Rather than allowing large banks to cater to the select number of businesses they have the most lucrative relationships with, we must use all tools at our disposal to direct money to historically underbanked communities.

¹ Bader, Emily. "States Made It Harder to Get Jobless Benefits. Now That's Hard to Undo." *The New York Times*. April 30, 2020

² US Chamber of Commerce. "Special Report on Coronavirus and Small Business." *US Chamber of Commerce*. April 3, 2020

³ Iacurci, Greg. "7.5 million small businesses are at risk of closing, report finds." *CNBC*. April 15, 2020

Unfortunately, the small businesses most in need of federal funds have faced a number of unnecessary obstacles to receiving them. Large lenders have largely failed to do their part to promote the equitable distribution of PPP funds by using discriminatory lending practices. Many of the large banks only extended credit to businesses with preexisting relationships with the lender.⁴ The lack of clarity around the program coupled with the understandable haste of the rollout placed smaller businesses with fewer resources available at an even greater structural disadvantage to their larger counterparts.⁵ Sole-proprietors and other 1099 filers were unable to apply for PPP-loans until April 10th only days before the first tranche of funds were exhausted.⁶ Going into the second round of funding, the five largest banks in the country had over a million applications prepared effectively crowding out smaller lenders.⁷ Considering the limited number of funds available for the program, small businesses without an established relationship with a large bank likely have no substantive opportunity to take access PPP loans.⁸ Coupled the divestment of large financial institutions from low-income communities, this means the small businesses in communities most acutely impacted by the coronavirus pandemic have been disproportionately excluded from the program.⁹ Such an uneven distribution of federal funds will only work to further entrench preexisting socioeconomic inequality by providing aid to those that have the resources to afford it and doom underbanked small businesses already teetering on the precipice.

Explicitly setting aside funds for some kinds of small businesses will mandate large banks lend to those most in need. Large financial institutions will always have a vested interest in directing government guaranteed loans to their largest clients. Directing these loans to large financial institutions has the dual benefit of lending to clients that can take on larger, more lucrative lines of credit while simultaneously providing these clients with access to capital at a lower rate than they could in the private market. Public information shows that over 300 publicly traded companies accessed over \$1 billion in PPP funds¹⁰ with nearly half of all funds going to loans over \$1 million largely crowding out local small businesses without access to concierge banking services.¹¹ Evidence suggests that while CDFIs have excelled at lending to historically underbanked communities, large lenders have largely disengaged entirely from these populations creating a dearth of opportunity to access credit.¹² Leadership has already taken the critical step of setting aside \$60 billion dollars for small lenders such as these, which will help better distribute funds to small businesses. Similarly allocating funds for lenders to extend credit to small businesses based on revenue or size will help direct funds to the mom and pop small businesses that make up the backbone of our economy.

With this in mind, we implore you to include the following provisions in any upcoming stimulus package that amends the Paycheck Protection Program:

⁴ Zhoë, Li. "Many small businesses are being shut out of a new loan program by major banks." *Vox*. April 7, 2020

⁵ Haimerl, Amy. "Keep Workers On, or Lay Them Off? Small Businesses Face Hard Choices." *The New York Times*. April 11, 2020

⁶ Small Business Administration. "PPP Loans for 1099 Independent Contractors." *SBA*. April 10, 2020

⁷ Popken, Ben. "'Extremely disappointing' and 'entirely predictable' – slowdowns and lockouts plague second round of PPP." *NBC News*. April 27, 2020

⁸ Thorton, Alexandra. "How Congress Can Help Small Businesses Weather the Coronavirus Pandemic." *Center for American Progress*. April 13, 2020

⁹ Davis, Michelle. "As US banks shut branches, JPMorgan leads a shift toward wealthy areas." *Los Angeles Times*. March 11, 2019

¹⁰ Small Business Administration. "Paycheck Protection Program Report 1" *SBA*. April 16, 2020

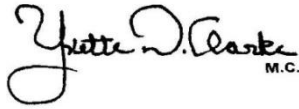
¹¹ FactSquared. "SEC Filings Public Companies Receiving SBA PPP Loans Under the CARES Act." Accessed: May 3, 2020

¹² Community Development Financial Institutions Fund. "CDFIs Stepping into the Breach: An Impact Evaluation – Summary Report." *US Department of the Treasury*. August 2014

1. Allocate funds for lending to small businesses with **less than \$1 million in annual income**;
2. Allocate funds for lending to small businesses with **fewer than 50 employees**;
3. Streamline the application process to facilitate the application process for small businesses in financial jeopardy by easing requirements such as lowering the administrative burden by easing certain documentation requirements – such as by allowing small businesses who have not yet prepared 2019 financial statements in light of the deadline extension to apply with their 2018 tax filing and allowing freelancers to apply for loans with personal banking relationships rather than solely business banking relationships.

We can only guarantee that lenders will extend credit to the small businesses most in need by legislatively mandating that they do so. As a matter of first principles, even though the funds will flow through private lenders, the lending must serve the general public – not only the most lucrative clients for the largest banks. Failing to take the necessary steps to hold private lenders accountable will not only allow them to take advantage of the system, but it will also undermine the effectiveness of the CARES Act in responding to our current financial crisis. By creating dedicated PPP funding allocations for small businesses with revenue under \$1 million or less than 50 employees in upcoming stimulus legislation, we can ensure the most vulnerable enterprises, which lack the lending relationships or capabilities of larger small businesses, are not left behind by the Program.

Sincerely,



Yvette D. Clarke
Member of Congress

/s/ André Carson
Member of Congress

/s/ Gilbert R. Cisneros, Jr.
Member of Congress

/s/ Angie Craig
Member of Congress

/s/ Eliot L. Engel
Member of Congress

/s/ Adriano Espaillat
Member of Congress

/s/ Eleanor Holmes Norton
Member of Congress

/s/ Hakeem Jeffries
Member of Congress

/s/ Carolyn B. Maloney
Member of Congress

/s/ Grace Meng
Member of Congress

/s/ Alexandria Ocasio-Cortez
Member of Congress

/s/ Jamie Raskin
Member of Congress

/s/ Jan Schakowsky
Member of Congress

/s/ Darren Soto
Member of Congress

/s/ Adam Smith
Member of Congress

/s/ Jackie Speier
Member of Congress

