

COVID-19 RELIEF for Small Businesses Act of 2020

SENATE SMALL BUSINESS COMMITTEE DEMOCRATS

American small businesses are facing an unprecedented economic disruption due to the novel coronavirus (COVID-19) outbreak, with reports of small businesses experiencing major difficulties. Due to the nature of this economic disruption, the existing disaster recovery programs for small businesses are insufficient. Congress must find new, innovative ways to help our nation's small businesses survive the coronavirus outbreak, and build resiliency for the future.

Senate Small Business Committee Democrats propose the **COVID-19 RELIEF for Small Businesses Act of 2020** to improve and leverage the tools available at the Small Business Administration (SBA) to support small businesses, and create new tools to address the unprecedented pressure that small businesses face, including waiving the disaster declaration requirements so that businesses in all states have immediate access to Economic Injury Disaster Loans.

Further, Senate Democrats support true small business relief through the tax code. These proposals are outside the scope of the Small Business Committee, but we look forward to working with the Finance Committee to ensure tax relief provides the most support possible to the small businesses that need it the most. Details on the proposals for the SBA are below.

Recovery Grants

The federal government has a duty to prevent any small business from falling through the cracks during this public health emergency. For small businesses that are denied an Economic Injury Disaster Loan (EIDL), the bill would create a new grant program to award up to \$50,000 to small businesses that meet the following criteria:

- have between two and 50 employees; and
- can demonstrate losses of at least 50 percent for a minimum of one month due to the outbreak.

The grants may be used to address any purpose that would have been allowable under the EIDL program, including:

- providing paid sick leave to employees unable to work due to the direct effect of the coronavirus (COVID-19);
- maintaining payroll to retain employees during business disruptions or substantial slowdowns;
- meeting increased costs to obtain materials unavailable from the applicant's original source due to interrupted supply chains;
- making rent or mortgage payments; and
- repaying obligations that cannot be met due to revenue losses.

Small Business Debt Relief

Small businesses in industries heavily impacted by coronavirus—such as travel, tourism, and hospitality—are experiencing dramatic cash flow problems. SBA borrowers in the 7(a), 504, and microloan programs are disproportionately in industries likely to be hurt by this crisis. By volume, hotels and restaurants are by far the two largest industries represented. The government is ultimately responsible for guarantees on all of these loans, and has a vested interest in averting mass defaults.

To provide immediate relief to small businesses with SBA-backed loans, the bill would:

- provide small businesses with relief from SBA loan payments, including principal, interest, and fees, for six months;
- encourage banks to provide further relief to small business borrowers by enabling to extend the duration of existing loans beyond existing limits; and
- enable small business lenders to assist more new and existing borrowers by providing a temporary extension on certain reporting requirements.

SBA Major Loan Programs

Unlike large companies, small businesses operate on narrow margins, which makes them more vulnerable to long economic disruptions. Every day, small businesses experiencing disrupted supply chains and mandatory closures for social distancing are losing money—inching toward going out of business.

To get capital to small businesses, the bill temporarily tailors SBA programs to:

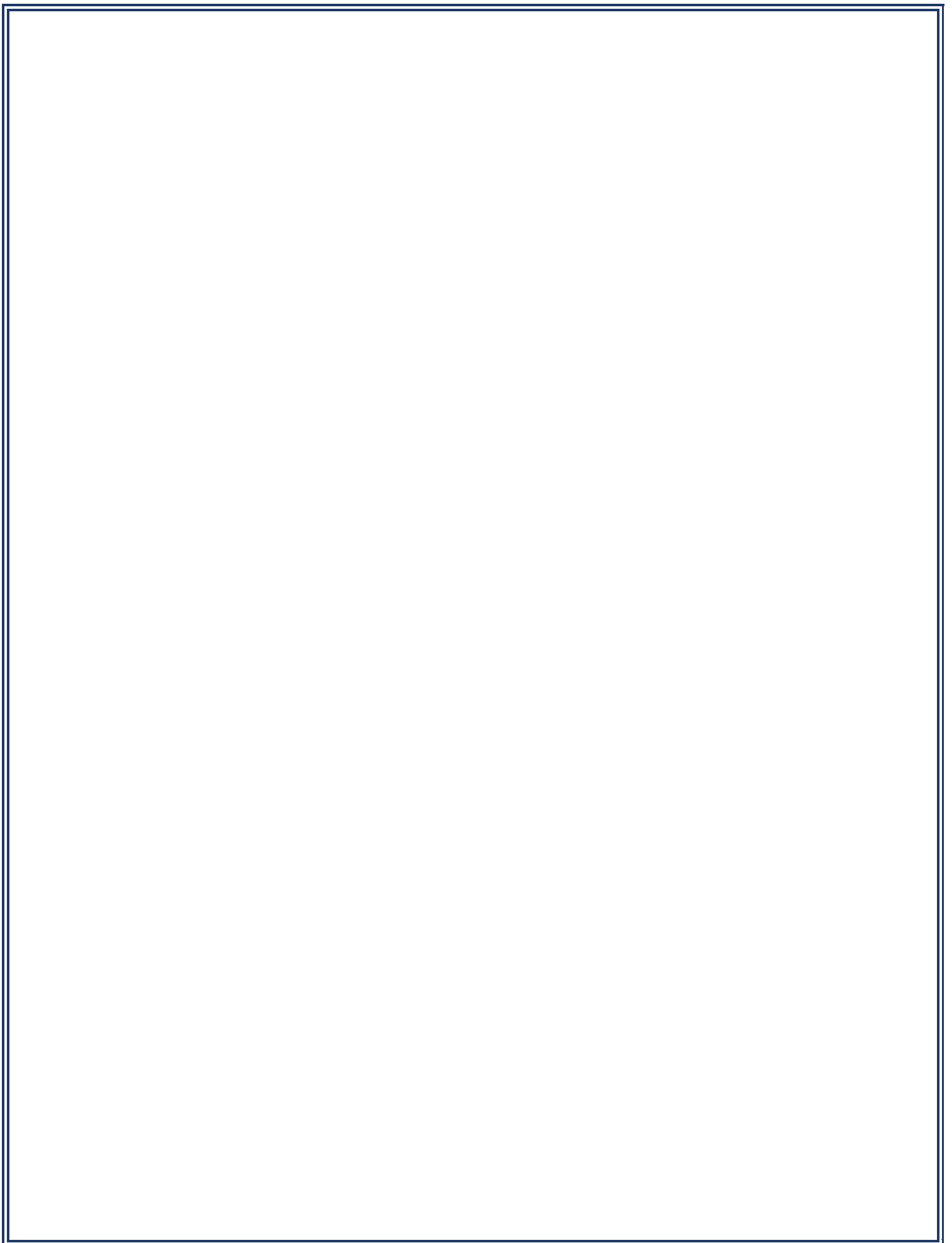
- reduce the cost of capital by waiving the fees associated with 7(a) and 504 loans, for borrowers and lenders, for up to 18 months, including for Community Advantage Loans and Export Loans;
- provide a permanent fix to waive fees for veterans and their spouses on 7(a) Express Loans;
- expand the pool of available capital for small businesses by increasing the annual lending limit of the 7(a) loan program, SBA's long-term loan program, from \$30 billion to \$80 billion for two years;
- raise the max loan amounts for 7(a) and 504 loans from \$5 million to \$10 million;
- incentivize lenders to make loans by increasing the guarantee up to 90% on 7(a) loans;
- enhance the 504 refinance program to reach more small businesses who need to refinance expensive fixed assets and lower their payments; and
- boost the microloan program with an additional \$72 million in loans, increase how much each lender can loan from \$6 million to \$10 million, and give borrowers an extra two years to repay.

Direct Lending Program

In addition to leveraging existing SBA programs and the thousands of lending partners that deploy capital to small businesses, small businesses will need a flexible resource for accessing affordable capital to sustain operations, pay workers forced to stay home from work due to the illness, address supply chain interruptions, and other outbreak-related expenses.

This bill establishes a temporary direct loan program at SBA for small businesses located in a State or Territory with a confirmed or presumed positive case of COVID-19. The Business Stabilization Direct Loan Program would:

- provide small business owners capital to pay off or refinance existing debt, provide employee benefits, pay employee wages and related taxes, and acquire technological and other resources that enable continuity of operation;
- support \$100B worth of zero interest, zero fee loans of up to \$2.5 million each with 10-year terms and repayment deferred for the first year;
- inject money into the economy quickly by mandating that 20 percent of the proceeds be disbursed within 5 calendar days after approval; and
- forgive up to 50% of the loan after December 31, 2021 if the borrower has retained the same number of employees as when they received the loan.



Federal Contracting

The federal government must grant flexibility to small business federal contractors and expedite the contract award process so affected contractors can begin generating revenue. The bill would:

- extend contract performance time by 30 days to small businesses affected by COVID-19;
- require the Federal government to pay small business contractors and revise the delivery schedules, holding small contractors harmless for being unable to perform under a contract because of COVID-19;
- temporarily remove the requirement for contracting officers to conduct market research so that contracting officers may grant sole-source award contracts for small business programs, including the women-owned, HUBZone and service-disabled veteran-owned small business programs;
- increase total sole-source award contract values to \$8 million for services and \$10 million for manufacturing;
- exclude SBA's socioeconomic programs, including the 8(a), women-owned, HUBZone and service-disabled veteran-owned programs toward the Office of Management and Budget's annual category management goals; and
- have federal agencies promptly pay small business prime contractors and contractors with small business subcontractors within 15 days, notwithstanding any other provision of law or regulation, for the duration of the President invoking the Defense Production Act in response to COVID-19.

Entrepreneurial Development

SBA resource partners, including Small Business Development Centers (SBDCs), Women's Business Centers (WBCs), and the SCORE program, provide vital mentorship, guidance and expertise to small businesses. These organizations will need to hire more staff to deal with the increasing number of small businesses that need their help to respond to COVID-19. The bill would:

- provide \$18.75 million in additional funding to WBCs, roughly \$150,000 per center;
- inject an additional \$40 million into SBDCs;
- grant an additional \$1 million to the SCORE program, which is primarily run by volunteer mentors; and
- direct SBA to create a Made in America list to help secure small business supply chains and promote small business manufacturing in the United States.

Community Advantage Program

We know that, in times of economic downturn or uncertainty, underserved markets often experience an even larger credit crunch.

To increase lending to underserved markets, the bill would:

- codify and make permanent the 7(a) Community Advantage program, which has proven successful at increasing lending to women, minorities and veterans by providing loans of up to \$250,000 through mission lenders;
- expand the program's geographic and demographic reach to cover women and minorities; and
- increase the amount of available capital by allowing the Administrator, at her discretion, to provide waivers for loans to go up to \$350,000.

This legislation builds on lessons learned over the past nine years, creating guardrails for responsible growth and increasing oversight to mitigate risk.

Intermediary Lending Program

Responding to the economic impact of this public health crisis requires fast, flexible and targeted deployment of capital to the communities most affected. The bill would reinstate and make permanent the Intermediary Lending Program (ILP), which would give direct loans of up to \$1.5 million to nonprofit lenders, who then lend to small businesses in their communities with loans of up to \$200,000.

The program would:

- leverage the on-the-ground knowledge of nonprofit lenders to get capital to the communities and small businesses that need them most;
- increase the amount of capital available for small businesses in the most affected communities; and
- help manufacturing and high tech firms ramp up production by deferring principal and interest payments for up to 6 months.

Small Business Resiliency

After small businesses make it through this difficult period, the federal government must do all it can to ensure that they are more resilient and better prepared for the next economic disruption, whether it's a natural disaster or a cyberattack on their business. The bill would:

- allow small businesses already approved for an EIDL to borrow an additional 20 percent beyond what they have been approved for to pay for business continuity and resilience improvements, including establishing telework capability and implementing off site record keeping, among other measures.

The provision is similar to rules in SBA's physical disaster loan program that allow businesses to take out an additional 20 percent to pay for hazard mitigation to better withstand the next natural disaster.

Office of Emerging Markets

After the Great Recession, SBA created an office to bring "greater unity, focus and effectiveness to SBA's efforts" to reignite economic opportunity for underserved, or emerging, markets. The office was unique, did great work, and was considered vital by stakeholders, however it is now vacant.

It is vital that the additional resources and tools provided to SBA be deployed in a strategic manner to ensure that SBA-backed capital is directed to the communities that struggle the most to access capital in the private markets.

The bill would create the Office of Emerging Markets within SBA to:

- create and implement strategies and programs that provide an integrated approach to the development of small business concerns in emerging markets;
- develop and recommend policies concerning the microloan program and any other access to capital program of the Administration;
- establish partnerships with those best positioned to advance the goal of improving the economic success of small business concerns in an emerging market; and
- review the efficacy and impact of the microloan program and any other access to capital program of the Administration, as it pertains to emerging markets.

Innovation Centers Program

Underserved communities have been left out of many of the economic gains that have occurred since the Great Recession. Many of these communities are now expected to be among the hardest hit by COVID-19. As our economy recovers from this pandemic, we must ensure that these communities are not left even further behind.

The bill would create the Innovation Centers Program within SBA to:

- support the creation and retention of dignified work that offers good salaries and pathways to prosperity;
- prioritize inclusivity in innovation to ensure that groups currently underrepresented in high-growth industries get the support they need to be successful;
- establish new entrepreneurship ecosystems by using HBCUs, MSIs, and community colleges, which are critical to reaching minority, low-income, and rural populations, to foster entrepreneurship in their communities; and
- enhance outcomes for underserved business owners by creating projects that will combine unique and intensive mentorship, networking, and sometimes funding opportunities to fill a gap in SBA's current programming.

Small Business Innovation Research & Small Technology Transfer Research Programs

The Small Business Innovation Research Program and the Small Technology Transfer Research Program allow government agencies to partner with high-tech small businesses to conduct vital government research in areas, such as renewable energy, cybersecurity and biosciences.

The bill would make the programs permanent, providing certainty that roughly \$3.5 billion in seed capital continues to flow into local our communities annually, require civilian agencies to accelerate the timelines for awards to as close to 90 days as possible so small businesses are able to act quickly.

Trade

The State Trade Expansion Program (STEP) awards funds to be used to increase small business exporters and their sales in their state. Entities who have been awarded funds under the program in fiscal years 2018 or 2019 will struggle to use all of those funds before the deadline due to the impacts of COVID-19 on international trade and exports. Currently, unobligated funds cannot be carried over into the next fiscal year.

This bill would support small business trade and exporting by allowing states to carry over STEP funds from FY18 and FY19 into FY21 to ensure that they still have access to that money once normal business resumes.