September 9, 2020

The Honorable Mitch McConnell
Leader
United States Senate
317 Russell Senate Office Building
Washington, D.C. 20510

Dear Majority Leader McConnell:

We are writing to strongly urge that the provision to rescind funding for the CARES Act Section 1112 payments for the Small Business Administration's (SBA) 7(a) (including Community Advantage), 504, and microloan programs be struck from the recently released Senate GOP Targeted Relief Package and not be included in any future proposals in response to the COVID-19 pandemic.

The recent GOP Targeted Relief Package contains some helpful provisions to small business borrowers and lenders, such as streamlined forgiveness in the Paycheck Protection Program (PPP). However, the proposal's rescission of $146 billion from the ''Small Business Administration—Business Loans Program Account, CARES Act" is deeply concerning as we are informed that it would include rescinding funds from the appropriations provided for Section 1112 payments.

The CARES Act authorized and funded Section 1112 payments, which provide six months of payments for all 7(a), 504, and microloan borrowers—both existing and new. These are not payment deferments, but rather full payments to the lender of principal and interest for which the borrower will never again be responsible. These payments were funded in the CARES Act with $17 billion in appropriations. To rescind Section 1112 payment funding would be to retract the opportunity for providing critical economic stability for hundreds of thousands of small businesses and the government's own SBA loan portfolios.

Section 1112 payments have undoubtedly been one of the most effective and significant components of the CARES Act. In fact, Section 1112 payments have not only stabilized thousands of SBA loans that are already on the government's balance sheet, but have also acted as a way to stimulate new lending as well. This is especially critical while the lending and small business communities continue to go without the basic enhancement provisions to the traditional SBA loan programs that have been discussed with the Small Business Committees since March. While the PPP has played a role in the small business economy and has helped many borrowers, the tried and true SBA loan programs—the 7(a), 504, and microloan programs—continue to deliver long-term capital based on rules of the road that the lending community know and trust. As a result, lenders will continue to turn back to the traditional SBA loan programs to help borrowers in these current economic conditions.

This is the exact time that we should be taking advantage of every opportunity to leverage the already appropriated dollars and authorization from the CARES Act that are intended to help the small business economy—not rescinding funding from an effective tool. This is only further underscored by the fact that the small business borrowers that took advantage of the Section 1112 payments are many of the most vulnerable small businesses in the country. The borrowers receiving Section 1112 payments are those that could not qualify for conventional credit, including many new start-ups which have entered into the small business economy at an unbelievably difficult time. We urge

Congress to maintain funding and extend spending authority for new borrowers in the CARES Act that help to bolster these borrowers, rather than remove funding from these provisions.

In addition, it has been suggested that the authority for Section 1112 payments sunsets on September 27, which has provided rationale to rescind unused funds once authority no longer exists. In fact, this is a critical misunderstanding of the CARES Act authority. Due to the way in which the CARES Act authorizes various small business borrowers in different statuses—existing borrower not in deferral, existing borrower in deferral, and new borrower—the authority for *receiving* Section 1112 payments does not actually sunset for any category of borrower, rather only the *eligibility* to receive payments sunsets for borrowers receiving new loans after September 27. According to current text of the CARES Act, months of Section 1112 payments would continue after September 27 for both existing and new borrowers. In other words, rescinding funds from the appropriations provided for Section 1112 payments does <u>not</u> rescind appropriations for a program that is no longer authorized.

Furthermore, there is no transparency in the recent proposal as to how much the $146 billion rescission will cut from the Section 1112 funding or whether that will leave enough appropriations to complete expected Section 1112 payments for the thousands of borrowers that still have months of payments which the CARES Act still authorizes them to receive past September 27. It is incredibly difficult at the outset of any program to project demand, and we would be deeply concerned if the full 6 months of payments for all borrowers in all statuses as outlined in the CARES Act were not honored. If Congress saw it appropriate and necessary to allow for $17 billion in appropriations for six months of Section 1112 payments in March when the CARES Act was signed into law, we strongly urge Congress to honor that amount of funding for payments that both small business borrowers and lenders expected to last for the length of payments that continue to be authorized in legislation.

Over the past several months, we have been actively engaging with many Members of Congress on both sides of the aisle to advocate to *extend* the authority for eligibility for new borrowers past September 27, as well as extend the number of months of payments that each borrower in all statuses (existing borrowers not on deferral, existing borrowers on deferral, and new borrowers) would be able to receive. This extension of Section 1112 payments would be a no-cost provision, and would merely draw upon the already existing appropriation. This is a common-sense measure that could help thousands of additional small businesses. The GOP Targeted Relief Package goes in just the opposite direction.

To not honor all Section 1112 payments or not extend Section 1112 payments are mistakes that fiscal hawks in Congress should be concerned about as well. If all remaining Section 1112 payments are not honored or not extended while the economy continues to experience a partially open status, thousands of loans on the government's balance sheet could potentially be pushed into a past due status while still experiencing difficult times. It is likely that lenders would rapidly need to grant deferrals on untold numbers of SBA loans in order to help small business borrowers weather ongoing economic challenges if payments were not entirely honored or if a borrower could have benefited from extended payments during the upcoming months. The federal government could find itself in a potentially precarious and unstable financial position by placing current government guaranteed portfolios under undue stress and cause potential increased risk that could have been avoided if borrowers were able to receive continued Section 1112 payments that fully utilized available appropriations. None of these outcomes are desirable.

Please note that we also believe there should be other provisions included in a fourth package, including comprehensive and common-sense changes to the PPP, technical fixes to the CARES Act, and enhancement provisions for SBA's loan programs that would open the doors to stimulate lending during these difficult times and cost very little in comparison to other small business proposals included in this Targeted Relief Package. However, it was critical to focus on the rescission of funds in this most recent proposal because it remains one of the most stabilizing measures Congress has enacted thus far.

Thank you for your consideration of this important issue and for your attention to the nuances of the CARES Act authorization of Section 1112 payments. We all must ensure that a critical tool like Section 1112 is not just simply stripped away by rescinding appropriated funds. Otherwise, we will be leaving already appropriated payment relief on the table for thousands of small business borrowers, a federal government balance sheet facing potentially serious repercussions, and a small business economy, which largely emanates from the SBA's loan programs, that may start to find itself without a critical safety net at one of the worst times imaginable.

Sincerely,

Association for Enterprise Opportunity
Association of Women's Business Centers
CDFI Coalition
Community Development Bankers Association
Friends of the SBA Microloan Program
International Franchise Association (IFA)
National Association of Development Companies (NADCO)
National Association of Federally-Insured Credit Unions (NAFCU)
National Association of Government Guaranteed Lenders (NAGGL)
National Small Business Association (NSBA)
Page 30 Coalition
Small Business Roundtable
U.S. Black Chambers, Inc.
U.S. Hispanic Chamber of Commerce

Cc:
Speaker Nancy Pelosi
Minority Leader Schumer
Minority Leader McCarthy
The Honorable Marco Rubio
The Honorable Ben Cardin
The Honorable Nydia Velázquez
The Honorable Steve Chabot