



**The Economic Injury Disaster Loan Program:  
A View from Main Street**

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**Testimony of:**

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**Before the:**

**Small Business Committee  
United States House of Representatives**

**The Honorable Nydia Velazquez, Chairwoman  
The Honorable Steve Chabot, Ranking Member**

**Protecting small business, promoting entrepreneurship**

Thank you for the invitation to participate in this important hearing today regarding the effectiveness of the Economic Injury Disaster Loan (EIDL) program for Main Street businesses. Your leadership Chairwoman Velazquez and Ranking Member Chabot on the many issues impacting small businesses during the COVID-19 crisis is very much appreciated by the Small Business & Entrepreneurship Council (SBE Council), our membership and network of business organizations across the United States. All committee members are to be commended for their hard work and support of small businesses during this extraordinarily challenging period.

The Committee's early focus on how the federal government can effectively support small businesses, including the need to make modifications to the Paycheck Protection Program (PPP), is making a major difference in helping small firms survive the economic devastation triggered by COVID-19. Obviously, there is significant loss in the small business community, but your early intervention and doggedness has made a positive impact, especially as the economy begins to "reopen."

I am honored to be here today to represent the Small Business & Entrepreneurship Council (SBE Council). SBE Council is an advocacy, research and education organization dedicated to promoting entrepreneurship and protecting small businesses. For 25 years, SBE Council has worked on hundreds of policy and private sector initiatives to strengthen and improve the ecosystem for startups and small business growth. Over those 25 years, our small business members have experienced major challenges and setbacks. The COVID-19 crisis is like none other, as the sudden and fast-moving actions to mitigate the spread of the virus resulted in a dramatic drop off in economic activity, whereby many healthy businesses saw their revenues either plunge or dry up completely.

That is why access to capital continues to be a top priority and need for many small businesses. According to a research report released by the Small Business Roundtable (SBR) and Facebook on May 18 2020 ([State of Small Business Report](#)), the biggest challenges faced by small businesses include cash flow and lack of demand. While re-openings across America have launched the recovery period and sparked both demand and hope for many small businesses, big challenges remain. According to [a Lending Tree survey](#) released on May 28, 46 percent of small business owners expect fewer customers and sales upon reopening. In fact, only 17 percent expect to see customer sales returning to pre-pandemic levels. Re-opening the doors and stocking up will be difficult for many, as 46 percent of small business owners cite funding as the primary obstacle to reopening.

PPP and the Economic Injury Disaster Loan (EIDL) program were meant to help fill the capital void to get small businesses and their employees through the COVID-19 shutdown period. To that end, SBE Council is pleased that H.R. 7010, the Paycheck Protection Program Flexibility Act, and needed changes to PPP have been signed into law. The flexibility and modifications couldn't come soon enough, and again, SBE Council is grateful that Small Business Committee members stepped up as early advocates for reform and brought attention to the needed changes [in the Member Day hearing](#) on April 23. It was clear that many committee members talked directly to their small business constituents about PPP restrictions, which translated directly into legislative these changes.

We will continue to monitor PPP and forthcoming guidance to ensure it is working for our diverse small business economy. SBE Council will also continue to push for common-sense changes and clarifications, such as making cloud services a forgivable expense under PPP. These services are as essential and valuable as utilities and the internet for most small businesses, as they have allowed entrepreneurs and their employees to pivot to new business models; enabled employees to collaborate and work at home; made it easier and seamless to meet payroll; and provided tools to market and sell products and services during the COVID-19 shutdown.

Regarding EIDL, on paper, and as advanced by the CARES Act, it was a program that was ideally suited for many types of small businesses. Many business owners were pleased to see a program pass Congress that would meet their immediate capital needs, and with speed. Yet the execution of EIDL has gone badly, and hundreds of thousands of small business owners have been left demoralized, confused and angered by arbitrary changes to the program or lack of communication regarding the status of their applications.

The key areas in EIDL's breakdown, as communicated by our members and small business owners across the country were sad to hear. Particularly because many were desperate for capital to get them through the COVID-19 crisis. Many of our members have shared their stories over the past two months, and the one I am sharing below is typical of their EIDL experience (with the exception being a pivot to the Main Street Lending program mentioned by this business owners):

*Our company, (name of company withheld as a privacy matter) is a NYC-based business, and like other hospitality businesses, we have been decimated by COVID-19.*

*As soon as New York State was declared eligible for the Covid-19 EIDL program, we immediately applied on 3/20/20. We followed up a number of times by phone with the SBA's Help Center over the subsequent 2 weeks and we were told our application had been received and was "in process."*

*However, when we followed up again on 4/4/20, we were told that the process had changed and we needed to submit a new application, which we did that same day. It was very discouraging to learn of the process change in this manner, and even more disappointing to find out that the funding was soon exhausted, in spite of our diligence in applying early.*

*Thankfully, an expanded EIDL program was signed into law later in April but we still haven't heard any definitive status update from the SBA.*

*Each time I call the SBA's customer support line I receive conflicting answers. It was even more discouraging to learn via a Washington Post article that the EIDL loan amount is now capped at \$150,000. I know the SBA has refused to validate that report but it's now assumed to be correct. I respect the initiative to get funds to all businesses but a \$10M annual revenue business naturally has higher working capital and fixed costs than a \$1M annual revenue business. There has been zero disclosure on how \$150,000 was determined. We are a "larger" small business that operates in NYC so our fixed / operating costs are higher than most*

*businesses. Any additional capital would help but we were expecting to be closer to the historical \$2M limit.*

*The SBA has a herculean task managing through this crisis...At its core, the EIDL program was a perfect program to help small businesses manage through this challenge:*

- *relatively low interest rates.*
- *long maturity debt.*
- *flexibility to use the funds.*

*Given the consistent lack of disclosures around the program and timing uncertainty, we are now looking to pursue funding via the Main Street Lending Program. The Main Street Lending Program tradeoff is a much shorter maturity vs EIDL but seems to offer higher borrowing amounts.*

Again, the experience that this business had with the EIDL application process was a very common experience. That being the case, some of our members did receive funding but at far lesser amounts than what they applied for.

**What's the Status of My Application?** Like most small business organizations, SBE Council anticipated a massive demand for EIDL funds. The flood of applications crashed the Small Business Administration's (SBA's) system. Somewhere between the crash and subsequent fix, many small business owners were left confused about the status of their applications. Some of our members did receive an application number immediately after applying for an EIDL loan, but many others did not. Some turned to the phone (with long wait times) to talk to an SBA representative either about the receipt of their application and what comes next, or the status of their application because they heard nothing. Oftentimes, these issues were not rectified after talking to a representative by phone.

For those confused about their application status, many small business owners wondered if they should apply again. Some were advised that they should, and many did. The upshot of these early challenges in launching the EIDL program was that the 3-day response time required by the CARES Act was never met for most. And the lack of transparency and communications with applicants, and potential applicants, was a problem that continued beyond the early launch days.

**The "\$10,000" Advance/Grant:** Many SBE Council members thought this element of the EIDL program sounded too good to be true, and it was. A change was made to the \$10,000 advance, which placed a limit of \$1,000 per-employee. The change was never formally announced, and small business owners only learned about it when they received their funds or through peers. Once groups like SBE Council learned about the cap via our members, it was a scramble to determine if this was actual SBA policy so that we could communicate this to our members. This lack of transparency and communications was disappointing and demoralizing for many small business owners.

**The Mysterious \$150,000 Loan Cap:** The maximum EIDL amount allowed under this program in the CARES Act is \$2 million, but \$150,000 appears to be the working number at SBA. Again,

there was no communication about this cap, only rumors and “off-the-record” confirmations with SBA regional staff. If there was more transparency about the \$150,000 cap (why that number was chosen), along with formal communications that a cap was actually put into place, a significant number of small business owners would have never applied for an EIDL loan. These small business owners wasted a lot of time doing so.

**Farmers and Ag Only Need Apply:** We love our nation’s farmers, and we count farmers and agriculture businesses among SBE Council members. We thought it was a good idea to let these businesses into the program, but providing businesses in this sector with their own exclusive window to apply for EIDL loans appears as though the government is picking “winners and losers.” In our view, this is unfair to non-agriculture businesses.

**Unidentified Constraints for EIDL Loan Recipients:** Some SBE Council members are concerned that their EIDL loan agreements require prior consent from the SBA before selling or transferring collateral. The big concern is how long this approval could potentially take especially given the volume of this EIDL program and SBA’s track record with regard to poor communications and the long period of time it took for business owners to navigate SBA and receive loan approval. For example, how long will it take for a business owner to get approval from an SBA loan officer when they need to sell a piece of their equipment?

## **Moving Forward**

There is no doubt that the implementation of the COVID-19 EIDL program was a huge task for the SBA, as it would be for any entity. The massive demand overwhelmed the agency. SBE Council believes, however, that some of the mass confusion could have been avoided if the SBA communicated limits they were placing on the program - like the \$1,000 per-employee advance, as well as the \$150,000 loan cap. Being transparent about changes and why they are being made is essential information for small business to know so they can plan and use their time wisely – especially during times of crisis.

In addition, more transparency and information about EIDL loan agreements, perhaps putting this information online – to include, for example, constraints on collateral and relocating the business – would be helpful for applicants to know before going through the application process. It’s always good to know what you will be “signing up for” before you get to the end of lengthy and time-consuming process.

We do think there is a place for the private sector and financial technology in helping to deliver on programs like EIDL during a crisis. Especially events such as COVID-19 or major disasters that require the delivery of capital on massive scale, which needs to be done efficiently and transparently. We hope that outsourcing is part of the discussion, as we know there are many things SBA does well that help America’s small businesses successfully start and build their businesses. Delivering on this core function is difficult enough, and with sophisticated and efficient technology platforms that can deliver capital to small businesses quickly, it makes sense to explore these opportunities.

Thank you for your leadership, and for inviting SBE Council to be a part of this conversation. I look forward to our discussion.

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