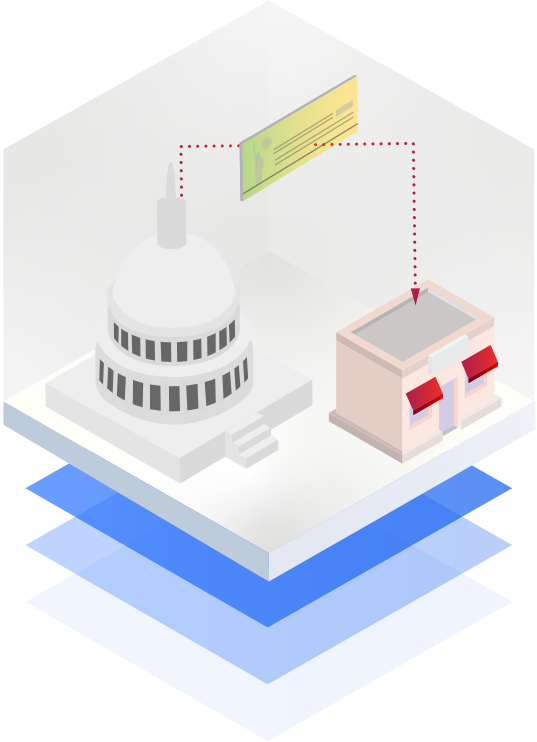

CARES ACT

EMERGENCY LENDING PROGRAMS

The COVID-19 crisis is unique in that businesses seeking financing find themselves in such a position through no fault of their own, and in most cases have been mandated by a government body to limit or cease operations. The Chamber supported the creation of the Small Business Administration's SBA's Paycheck Protection Program and the myriad lending programs administered by the Federal Reserve. These programs are intended to help businesses weather the economic storm and retain their employees. The financial support provided by Congress is historic in size, and the Chamber strongly supports policymakers providing oversight for the CARES Act lending programs.

Oversight of these programs is central to the confidence of taxpayers that the funding authorized under the CARES Act is being deployed responsibly and in a manner that will support economic recovery. The ultimate goal of policymakers should be to ensure that the credit provided under the CARES Act flows to the businesses and households that most need it, while rooting out any waste, fraud, and abuse that would undermine or impede economic recovery.

At the same time, using the crisis and exploiting the CARES Act facilities to pursue unrelated policy goals—or to shame certain companies or industries for availing themselves of programs they are legally eligible for—should not be confused with "oversight." Businesses in every sector and of every size are being harmed by the pandemic, and many will ultimately choose to apply for and receive credit under a program. Our economy will never fully recover if lending programs become politicized and used as a mechanism to direct policy outcomes that are uncorrelated to putting Americans back to work and getting the economy growing again.

The Chamber has consistently supported oversight mechanisms in times of crisis when taxpayer dollars are used as a lifeline for the economy. For example, in 2009 the Chamber supported the Troubled Asset Relief Program (TARP) Accountability Act, which provided a mechanism for the government and the public to easily track and monitor disbursement of TARP funds in the wake of the 2008 financial crisis. As we stated then, "This level of transparency will help avoid the misuse of funds and develop a level of confidence that is integral to the success of TARP." This principle remains true today.

FRB: RIGHT-SIZE THE MAIN STREET LENDING PROGRAM

The Main Street Lending Program (MSLP) is positioned to provide financing to medium and large businesses, and nonprofits, that are in need of bridge financing to overcome the economic challenges of the pandemic. These organizations have successful businesses models, but government orders to close and other disruptions have called their viability into question. The MSLP would be especially critical for middle market businesses—which employ over 60 million Americans—to weather this storm. Early in the crisis, the Chamber strongly supported creation of a bridge-financing facility by the Federal Reserve, such as the MSLP, given the needs being expressed by businesses, but this program is not yet delivering the support being requested by main street businesses.

Lending under the program has been much lower than expected and has not met the expectations of middle market businesses. There is not one single reason for minimal borrowing via the program; it is likely due to a variety of factors that disincentivize both borrowers and lenders from participating.

ACTION: The Federal Reserve should create new lending terms that are secured to real assets. This will permit firms with strong balance sheets, but possibly limited cash flows, to make use of the emergency lending program.

ACTION: The Federal Reserve should continue to reassess the borrowing terms of the program—including the maturity length, interest rate, and repayment schedule—to ensure they are attractive for eligible borrowers.

ACTION: The Federal Reserve should continue to reassess the lending terms of the program—including the fee and risk sharing—to ensure that lenders are incentivized to participate.

ACTION: The Treasury secretary should use his or her authority under Section 4003 to waive restrictions for dividends and other capital distributions in the Main Street Lending Program to improve the ability of participants to attract financing from the capital markets.

ACTION: Certain 501(c)(6) organizations, such as state and local chambers of commerce, should be made eligible to borrow under the program in order to maintain payroll and ensure these organizations can continue to provide guidance and resources to small businesses during this time of uncertainty.

FRB AND TREASURY: CREATE NEW 13(3) SHORT-TERM LIQUIDITY FACILITY FOR ACCOUNTS RECEIVABLE

In the unexpected economic downturn caused by COVID-19, businesses have had to deal with the challenge of forecasting cash flows and harnessing sufficient cash while still maintaining other types of short-term assets, such as inventory, in order to continue their business operations. Because of the extraordinary economic conditions, businesses that normally receive payment for goods or services within 30 days have experienced significant slowdowns in payments of 90 days or more. These delays have caused smaller businesses to hesitate to take on normal business risks and have caused an acute constriction of the supply chain—endangering America's economic recovery at a time when increasing economic activity is a key goal of policymakers and businesses alike. Unfortunately, the Federal Reserve has not established a program to provide much-needed liquidity to the supply chain.

The Federal Reserve, with approval from the Treasury Department, could use its authority under Section 13(3) of the Federal Reserve Act to create a federally backed short-term facility (or facilities) that provides liquidity for the suppliers and buyers in the supply chain.

ACTION: The Federal Reserve, with the support of the Treasury Department, should use its authority under Section 13(3) of the Federal Reserve Act to create a short-term liquidity facility to support financing in the supply chain.