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WEBINAR

GOVERNMENT LENDING TO SMALL BUSINESSES DURING THE COVID-19 -- WHY? HOW? AND WILL IT WORK?

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P R O C E E D I N G S

MR. WESSEL: Good morning. My name is David Wessel, I'm director of the Hutchins Center on Fiscal and Monetary Policy at the Brookings Institution.

Our topic today is the extraordinary programs that the Congress and the Federal Reserve have launched to deal with the strains on small businesses created by the government mandated lockdown of basically the entire economy. These are unusual programs and it, the federal government, the Congress, has allocated $349 billion for loans that will be made through the banking system or some fintech companies and the Small Business Administration loans that will be forgiven if for borrowers if they meet certain conditions about holding on to their payrolls. These are generally for businesses with fewer than 500 workers and this program has gotten a lot of attention, largely because there is so much demand for it and there have been concerns about bottlenecks. And a lot of concerns that there is not enough money allocated for it.

According to Brest Reports more than 800,000 loans have been approved, 200 billion of the 349 billion have been, has been committed. In addition, the Federal Reserve has launched a couple of Main Street Lending Programs which are for somewhat bigger business up to employees of 10,000. A minimum loan is a million dollars and these are conventional loans, they have to be paid back. So we are going to talk about why we are doing these programs, what the challenges are and how well the system is working to date.

I'm joined today by Michael Strain who is Director of Economic Policy Studies at the American Enterprise Institute, my colleague at Brookings, Nellie Liang, former director of financial stability at the Federal Reserve, Beth Mooney who is Chair and CEO of KeyCorp, a Cleveland based bank that's the ninth largest SBA lender or was last year, and Sandy Baruah who was a former administrator of the Small Business Administration who is now head of the Detroit Regional Chamber of Commerce.

After we discuss a little bit about what is going on, I'm going to invite my colleague at Brookings, Josh Gotbaum to join us in the Q and A. I have a number of questions from people online already.

So, Michael, I'd like to start with you and I wonder if you could outline for us why are we providing forgivable loans to small businesses and how do you think this is working so far?

MR. STRAIN: Well, thank you, David, and thank you everyone for tuning in this morning. I think that the Paycheck Protection Program that David described is really, it stands to be the most important component of the $2.2 trillion packages that Congress authorized just two and a half weeks ago and the President signed into law.

The goal of the program is simple. It's to ensure small business continuity. If the idea behind the economic policy response or at least a key idea is that we should essentially freeze the economy where it was in mid-February or early March, something like that, allow social distancing to tamp down the virus and then hit the play button again on the economy when public health concerns allow people to resume normal activity.

It's really important that we don't have, you know, 10 million small businesses or something like that go out of business. And so the idea is to basically just freeze things in place, for the government to pick up the revenue loss that small business will experience, for small businesses therefore to avoid laying off their workers and for the workers to continue to get paid by their employer in order to essentially ride out the storm.

The way that Congress implemented the program was actually pretty sensible. The idea is that if you don't lay off your workers, then for an eight-week period, Congress will pick up the tab for your payroll costs. Congress will also pick up part of your rent, utilities, and mortgage interest payments as well.

Critically there is a provision in the program that I think has not gotten enough attention which is that businesses that have already laid off their workers can rehire them and not suffer a penalty in terms of a smaller grant.

We right now have at least 17 million newly unemployed people. The actual number is surely several million larger than that. And so if businesses can apply for one of these forgivable loans, they can rehire their workers, we can already start to put the unemployment rate down.

So, you know, why is this important? Obviously it’s important to workers so they can continue to get paid. It’s important for businesses so they don’t close down. As I said, it's also critically important to the ability of the economy to quickly recover.

The speed with which the unemployment rate drops, right now the unemployment rate is above 15 percent almost surely. The speed with which the unemployment rate drops will depend in large part on how quickly those unemployed workers can find new jobs. The PPP program allows labor demand to be sustained by attempting to avert a massive wave of small business closures and the PPP program is designed to keep people of the unemployment rolls in the first place and keep them attached to their employer.

There have been some implementation challenges to be sure. I'll highlight three. The Treasury Department imposed a rule that 75 percent of any loan that's forgiven has to be spent on payroll costs. That rule is not in the statute. I don’t think it was envisioned by Congress. And it’s causing some weird outcomes.

You know, for example for small businesses that are in cities with really high rental rates. You know, I think that's an opportunity for Treasury to rethink that regulation.

A second critical challenge that has been created by the Treasury Departments implementation of this program deals with the banks. The legislation essentially envisions banks as conduits. We already have a network of small businesses that already have relationships with banks.

Rather than stand up a whole new government program, why not just use those existing relationships and have businesses work with banks and the network of banks that exist throughout the country.

In order for that to work though, banks have to be convinced that they will actually be held harmless by the government in the event that a borrower misrepresents himself or herself when filling out the application. So banks have to be convinced that there won’t be any sort of after the fact penalties or enforcement actions that they're subject to if a borrower does misrepresent himself.

Treasury didn’t really go far enough in assuring banks that that would happen. And that’s resulted in a slower rollout than I think we would like. It's resulted in situations where some banks feel comfortable approving these loans for existing customers but not for new customers. And my concern is that the most vulnerable small businesses, you know, the true, you know, 10 employee mom and pop shops are going to be left behind in part because of Treasury's institution of the program.

The third issue that I'll highlight is just the amount of money that's been allocated. Congress allocated $349 billion to this program and that's just clearly not enough. The relatively low amount of money that was allocated has had the effect of discouraging some small businesses from applying for the program at all, especially given the alternate of just laying off their workers with expanded unemployment insurance benefits.

And so we really need Congress to approve additional funding for the program in order to meet the demand and meet the programs goals. Senator McConnell is trying to do that with a Senate procedure that doesn't require him to bring the full Senate back to Washington. That's been met with some challenges. Speaker Pelosi and Senator Schumer don't want to cooperate with that and so that's a current challenge.

Despite all that and I'll close on this note. I think it's important not to overstate the rockiness of the implementation, certainly has been rocky. I have been publically very critical of that. But if you just kind of step back, you know, this program is two and a half weeks old. It's already authorized nearly a million loans, something like 900,000 the last time I looked. And of the $349 billion, I think something like 220 billion of that has already been committed to borrowers.

So for a new program in a two and a half week period, you know, that's not a bad track record. You know, there are just two issues with that. Again, one, you know, is that money being allocated to the largest of these small businesses, to the businesses with the most sophisticated financial advice and is that kind of leaving the true mom and pop shops without access to the program?

And secondly, you know, is this getting out the door fast enough and will additional funding be appropriated fast enough in order to accomplish the goal of not having 10 million of the 30 million small businesses go out of business and keeping the unemployment rate at a non-depression era level. I think that remains to be seen and I'll stop there.

MR. WESSEL: Thank you very much, Michael. And I now want to turn to Nellie Liang. Nellie, could you talk a little bit about what the Federal Reserve is doing under its Main Street Lending Programs and how it's different from what the, Michael has just described and how you see that unfolding? We don't have as many details about that as we do the PPP.

MS. LIANG: Thank you, David, for those questions. So I'm going to mention two things that the Fed is doing on small business and one is how it's supporting the Paycheck Protection Program that Michael just spoke about, and then the Main Street Lending.

So very briefly, on the Paycheck Protection Program, the Fed is supporting it by created a facility, a lending facility where banks can basically pass through the loans to this facility so that the loans are not held on the balance sheet.

So for bank purposes and capital purposes, they've been assigned a zero risk weight for capital reporting but they might be included in the leverage or an average asset. So this facility allows banks to basically pass through loans that are guaranteed by the SBA and the government and get a zero risk weight. That will facilitate getting the banks to participate more intensely even which they have been already doing.

On Main Street Lending, they announced a program last week. Comments are being encouraged up till April 16 and this is to support lending to small and midsize business. It represents a big expansion by the Fed from its typical capital markets approach such as in the primary market corporate credit facilities.

It's a, definitely a complement to this Payroll Protection Program. It is not the same kind of program and I'll get into -- it is a loan, it is not a government transfer or even potentially a transfer. It is a loan whereas the Payroll Protection as you heard is a loan with possible loan forgiveness.

The number of firms in this universe is huge. As you know, there is like six million firms with about 500 employees each. There is about another 18,000 firms with between 500 and 5,000 employees and these firms have higher expected default and loss rates and much more variation across them than some of the larger corporations that the Fed has normally engaged through, in SPV's with.

So there are two Main Street Lending Programs. There is one designed for new loan, it’s called new loans and one is expanded. And combined, the programs can issue -- provide about $600 billion of loans given $75 billion in capital provided by the U.S. Treasury.

The design issues for the Main Street Lending Program are different as for PPP. They want to offer loans to borrowers who have viable businesses after the COVID-19 pandemic is more contained. It’s designed to be a lender of last resort type facility, typical of all the facilities that the Federal Reserve engages in, even with Treasury approval.

So what that means is that the Fed needs to be secured to its satisfaction. As Chairman Powell said here last week at a Hutchins event, the Fed can lend, it cannot spend. So it needs to create a facility that the Fed is secured to its satisfaction and also it is designed so that borrowers need to show they cannot access funds elsewhere and that the facilities will turn back -- that the borrowers will turn back to private lenders once conditions stabilize.

So those are some of the key criteria for the Fed. The Treasury will provide capital and has to approve the program. So borrowers will get loans, can access a loan from this program but I think there is a big recognition, an explicit recognition in the design that not all borrowers will benefit from a loan if after the crisis. The business model needs to be viable after the crisis to benefit from a loan. Firms that don't have, have lost income and will not fully recover will not be benefitted by getting more debt.

This program relies on banks to underwrite the loans. This is again unlike PPP where the banks are basically conduits. So banks need to underwrite the loans, they’ll be asked to retain some risk, at least five percent. The term sheets last week had the banks would retain five percent of the loans and the SPV would have 95 percent of the loans.

So what the loans look like or the term sheet says, these, this facility is available to borrowers with up to 10,000 employees or less than $2 and a half billion in revenues in 2019 and in good standing.

Now these loans are, can be up to four years. So this is, these are long loans, long term loans. There is no prepayment penalty. There is deferred P&I for one year but the length of these loans is designed to give borrowers time to recover.

The, there is a spread above SOFR of somewhere between 250 to 400 basis points. And just to contrast the PPP loans are one percent. There is also an origination fee and then there is a minimum of $1 million.

Now this is where the distinction of the two programs is important. The new loan program, the max is less -- is a lesser of up to, let me say it. The loan amount is going to be lesser of 25 million or less than four times operating earnings say last year based on where the debt includes outstanding plus committed drawn and undrawn line. So it's designed to have a fairly conservative leverage ratio.

The expanded program which is really targeted to larger, midsize businesses, long standing with a fair amount more debt, the maximum loan size there is up to 150 million, less than six times, debt of less than six times over operating earnings after tax and depreciation and there is a limit that it cannot be more than 30 percent of total loans.

So these are very different. They are in my view targeted to different parts of the big spectrum of what is private business in the U.S. And for the borrowers part, they are subject to some of the restrictions that were laid out in the CARES Act which was, is a couple key points are they will need to limit compensation, dividends and share repurchase. And they will need dot make reasonable efforts to retain employees.

They also will need to attest, this is not being used simply to repay existing loans, that it's designed for new investment or new spending. So the, that's my basic summary. The Main Street Lending Program is a complement to the PPP program but it is designed with Treasury, with Fed lending and in that sense needs to be done under lender of last resort type of framework. It's a 13/3 facility which means the Fed needs to be secured to its satisfaction and that borrowers need to show that they cannot access credit elsewhere. Okay, thank you.

MR. WESSEL: Nellie, when do you expect money to be flowing from the Main Street facilities?

MS. LIANG: The, they are accepting comments up until April 16 which is two days from now. I would expect within a week they would try to have it out and workable and then banks could start to work with their clients, with their customers. And I would -- and banks are, this is relying on banks to do underwriting. So I think it's as soon as banks are able to start that process.

MR. WESSEL: So when you say underwriting, it means the banks wants to make sure that the people can actually pay the money back?

MS. LIANG: Exactly.

MR. WESSEL: Okay. I'm going to turn now to Beth Mooney which as I said KeyCorp, is the, was the ninth largest SBA lender last year.

And Beth, I'm particularly interested in what your banks experience has been with the PPP, Paycheck Protection Act Program ad how it's going?

MS. MOONEY: Thanks, David, and I appreciate the opportunity to weigh into this important discussion as we all navigate what I call these unprecedented times.

First, I want to just build on something Michael described as he talked the Paycheck Protection Program which is first and foremost I think this is a very thoughtful and sound program for the times we find ourselves in. But the execution has been very painful and as Michael noted, it is also very public that it has been off to a rocky start.

And I think what I can do is help frame both some of the issues with the SBA and then kind of the birds eye view what it looks like to a bank. Because at its core, no one really thought though the operational complexity of what we were all trying to stand up. In the urgency to stand it up it became what I will call really herculean and lots of people really trying to do the right thing.

So the, they opted to use what they call the SBA 7A Program and I called it they picked an existing program because that meant it had processes, it had rails that you could go ahead and extend these loans on. But having a platform doesn't mean that platform fit the program.

And as just one anecdote, the SBA is I the process of changing, amending or deleting 85 to 90 percent of the requirements that would typically go with a 7A loan to accommodate this program. And they have been doing that in an iterative way which means kind of the goal post is constantly moving around as you're trying to put people into this program.

But you'll hear me say it's for a very noble purpose and there is no, I call it no fault on either side. So while the SBA wasn't really fully ready to how to pivot the 7A program, how about I will give you a little bit of a bird's eye view of what it looked like for the banks.

So Key Bank last year was as David indicated, the ninth largest SBA lender in the country under the 7A Program. We would have done last year 600 loans as a 7A lender or 50 loans a month.

In the last two weeks, we have done 37,000. So we did nine and a half years of volume in two weeks. So the part of what we are trying to talk about here is multiply that across the universe of banks, the burden its putting on the SBA while it's trying to redo its platform to fit purpose and what we are all trying to do to scale up to meet the tremendous needs and demands of a critical part of our economy in terms of small business in order to support both their viability and their ability to retain employment.

So I will tell you that we call it we threw bots and bodies at this problem. We have an approximately 19,000 employees and we have been tracking how many people have been engaged broadly from outreach to our customers to all the way through the back office to try and get these loans done, redo our tech platforms, manually process and we figure some 10,000 of our employs or over 50 percent have been engaged in trying to bring his program to our customers.

We made 135,000 email outreach to clients. We had 50,000 conversations and at the end of the day as of yesterday we were processing 37,000 applications that will represent some $9 to $10 billion of PPP loans.

This was an area that in its day probably had 13 people working on processing and we are working two shifts a day with five to seven hundred people now. And we have taken people from across the bank, retrained them, cross trained them and put them against this. And we have 120 bots that are actively working these applications to try and accelerate the timing.

As I said when the SBA is trying to amend its rules and make sure its fit for purpose, every time something got changed, a bot no longer was effective. We have to go back and technologically update to redeploy the bots because this was -- this to do strictly manually which a number of lenders have had to do manually because like I said to build the technology interfaces from a customer to your loan systems to the SBA at scale at this point in time is really, really hard to do.

We successfully delayed the first week of April to make sure we could get this into some automated state because we just didn't think you could manually process that many and not risk your customers losing their place in line against the 349 billion and I couldn't agree more that it's probably at the end of the day not going to be sufficient for the demand.

So going, again trying to get robotic process automation at scale and speed in a matter of days has been a huge task and one of our folks described it as you're building the plane while you're flying it. And that's a little bit what it feels like.

So if I could give you a just a little bit of insight, so what you need to do is get it into the SBA system to get what they call an e-tran number which means you've got a reservation. The SBA has acknowledged the application and that they're guarantee will apply. And with an e-tran umber, the lender then has the obligation to get the loan funded within 10 days.

So our focus was get as many e-tran numbers as possible so that we could get our 37,000 through the pipe and then we will go about the business of getting them funded. On Friday, we would have had 2,000 of those 37,000 applications with e-tran numbers. When I said bots and bodies, and holiday weekend aside, by Monday morning we had put through 17,000.

So we had 15,000 get through the pipe over the weekend and at its peak we could process 5 to 800 applications an hour between what we are able to do from technology as well as the people we had deployed.

So for those lenders that didn't find that technological link, they're going manually which means they're going much slower in creating some of the public bask up that we've been hearing about.

And for the smallest banks, I call them our community bank partners, they are probably getting through faster because they were prepared to do it manually anyway because they were going to do it on a smaller volume. So the largest banks are probably the ones who are most technologically challenged.

I think there is a couple, just three areas of or four areas of risk that I will highlight real quickly and then I'll yield back to David. One Michael has already mentioned is this notion of making sure who is responsible for eligibility. And the decision was made that indeed that needed to fall on the borrower and to think of your bank as a distributor.

This is a grant, this is a forgivable loan, this is a government transfer. We just need dot get it from A to B and so they did decide to make eligibility the certification of the borrower.

Fraud is going to be huge in a process like this. With this speed, with this scale, with this limited documentation so we are all trying to stay very vigilant to make sure we both detect fraud and not waste resources in this process and also continue strong know your customer protocols.

The process for forgiveness other than the broad parameters of the if you use at least 75 percent of it to support payroll over an eight-week period then it will be forgiven. But beyond that, it's a concept. It is not yet a process and that is going to need articulation and make sure we can get through.

And then I call it the reputational risk as well as the equity risk here. and, Michael, you were -- alluded to it in terms of some of the smallest firms may not have access because they may not have had technical sophistication relationships with their lenders and so forth.

And just yesterday, the House Financial Services Committee sent a letter to the four largest banks saying we are going to monitor and audit what you have done to make sure it has been done in an equitable way that disparate and low to moderate income populations weren't adversely impacted, that If you made any decisions on how you prioritized it didn’t have adverse implications, and that you’ve done adequate things to do minority outreach education and training.

So I also think there will be a social policy public purpose in this discussion. While I hope this way I've framed it have helped you understand like I said well-intended, painful to execute, good intentions, herculean tasks to get as many people through the pipe in this period of time it will also have its form of looking back to say did it indeed have a wide enough net. And with that I will say thank you and turn it back to David.

MR. WESSEL: Thank you very much, Beth. And finally, Sandy, I want to, I would like to you to talk about things from two different perspectives. One is was it a good idea to run this through the SBA, you know the SBA well. Were they equipped for this? And secondly, how do you see it playing out among small businesses in the Detroit area where you now run the Chamber of Commerce?

MR. BARUAH: Thanks. Well, good morning. I hope everyone is staying healthy. So yes, it was a good idea to run it through the SBA primarily in the land of the blind, the one-eyed man is king, and in this situation the SBA really was the only option.

You know, certainly my former colleagues at the SBA are used to dealing with disasters. As Beth mentioned, there is a set of rails there to make loans that are government guaranteed. So there really wasn't any other option that the government had. The challenge is is that the SBA along with not only the rest of the government but frankly the rest of society, you know, we are dealing with a challenge at a scope and at a breadth that we have just never -- not only have we not experienced this before, no one has prepared for this before.

And we can do the analysis afterwards of should we have been prepared and who did what when but right now when you look across society, our healthcare system was unprepared. Our businesses were unprepared. Our government was unprepared, et cetera, et cetera, et cetera. You know, our food chain, our food supply chain was unprepared for this kind of crisis.

And frankly to note that the government was unprepared to handle this kind of scope of challenge is certainly not surpassing and it's certainly something that we need to pay attention to after this crisis.

You know, the SBA is a normal disaster situation does a very good job processing disaster loans. Now, these are loans that are given to households and business primarily through a field operation that goes to the impacted area with scores of number of field staff and then Washington is there to kind of help at the back end process those loans that still go through some sort of banking, a banking system.

This is completely different. The federal government has never provided the direct assistance to small businesses and to individuals when you look at the expansion of unemployment benefits in a crisis like this ever before. So this is all completely unprecedented. So the fact that we are having a significant issues with this at the federal level is not surprising. The fact that loans are getting done the way Michael and Beth both alluded to is a good sign.

The back of the envelope calculation that the federal government made which was roughly the $350 billion which was again very back of the envelope, took all the business with 500 employees or less, estimated what their payroll was, you know, voila, they came up with the $500 billion. We are now finding that that is insufficient and the real number is going to be somewhere probably approaching a trillion dollars when it’s all said and done.

And the whole idea here is to ensure that our states are not overwhelmed with their unemployment system so let’s keep these companies with their payrolls intact, not put the stress on the states. The money is going to be spent kind of anyway so you might as well keep those businesses afloat and people on the payroll so we are able to accelerate out of this crisis with businesses and payrolls intact.

In terms of the second part of your question, David, in terms of how it’s affecting smaller businesses, you know, kind of across the country and certainly here in Michigan, some of the challenges have already been hit upon by some of my follow panelists.

Number one, not all banks or not all, excuse me, not all firms are having a banking relationship with an SBA approved lender. And that is causing significant challenges because as the know your customer and the Patriot Act rules are still in place and they are fairly substantial.

The banks that are SBA certified lenders really don’t have the capacity to take on new customers especially given this compressed time frame and as Beth mentioned, just the volume, they're doing nine years of loans in just a span of a week or two, taking on new customers is a real challenge and a real burden for them. So if you were a small business and your lending institution is not an SBA certified lender, you're really kind of left out in the cold.

Secondly, some of the rules took a long time, when I say long time, you know, even a week in these days is a long time, to get clarified. Certainly the affiliation rules in terms of foreign ownership or other kinds of affiliation rules that the SBA has normally were confusing to lenders and to financial institutions alike. And so that was a problem.

Certainly the amount of money available. I mean, we are already hearing that not only the Paycheck Protection Act, the 349 billion program is going to need refueling, the EIDL Loan Program which is the kind of modified Disaster Loan Program that was initially improved at the onset of this crisis is throttling back pretty substantially on the loans that they are providing. And that the initial $10,000 grant that was supposed to be part of those EIDL loans are also being throttled back pretty substantially.

And the, you know, and the other thing is that just the time. Some loans are obviously getting through. I think we all know people who already have their funds which is fantastic news. There is a lot of other people there that are still waiting and still concerned.

So the last thing I would say that is a challenge for a lot of, especially small businesses, particularly on the service end, think of, you know, hairdressers or restaurants, is that the goal of this program was to keep employees on the payroll which was a really noble and important goal to accomplish under this unprecedented time.

The challenge is thought that we all also enhanced unemployment benefits to the point where it is more beneficial for some employees to stay on unemployment than it is for them to go back to their employers.

Now technically once your employer calls you back to work, you are no longer eligible for the unemployment insurance. However it's the states that have to enforce that and, you know, the states have one or two other things on their plates right now and so it's really challenging for the states to enforce getting employees to leave the unemployment system to go back to their employer even though their employer might be paying les even with the PPP program in place. So with that I'll turn it back over to you, David.

MR. WESSEL: Thank you. Michael, I wondered if you could speak a little bit about how much you think this is going to cost if Congress chooses to meet the demand. You and Glenn Hubbard (phonetic) had some, a paper I read that suggested that replacing 80 percent of the revenue of the service sector businesses with fewer than 500 employees, excluding manufacturing, healthcare, education, finance and insurance, so that's a big chunk; that would, 12 weeks payroll 80 percent of it would be $1.2 trillion. Are we looking at a trillion program here? Hold on we got to -- can you, Anna, can you unmute everybody? Okay. Thanks.

MR. STRAIN: Yeah, I think we should be looking at a trillion dollar program. You know, the price tags start to add up and, I mean, I think Sandy is right that there are some kind of weird interactions between these programs.

And so, you know, we have expanded unemployment insurance to the point where a lot of unemployed workers are actually getting a pay increase by being laid off. You know, if we keep that in place, then that's going to reduce the demand for PPP loans because a lot of small business owners are going to say well I can, you know, I can just lay these workers off. And they'll end up in a better place than if they stayed with me.

You know, so the actual kind of, you know, final demand for the program in a world with no budget constraints I think is hard to know because there, again there are a lot of these interactions. But, you know, clearly $350 billion is way too small. That may run out this week. It's hard to imagine it lasting beyond next week.

I mean, again in two and a half weeks since the law was signed and really a week and a half since the program was up and running, we have -- banks have committed about 220 billion of that 350 billion already. So 350 is not enough.

Senator McConnell wanted to increase the size of that pool to 600 billion by adding an addition $250 billion. So that would be a good step. I suspect that wouldn't be enough either. You know, and I think the question is, you know, when do we bear the losses from this incident? There is no option where we just kind of continue on with business as usual and we don't bear losses with a trillion dollar price tag.

So do we end up spending an extra $7 or $800 billion to support the labor market and encourage work while trying to get the unemployment rate from 22 percent down to six percent? Or do we put a bunch of money into the system right now in an effort to keep the unemployment rate in the teens and not have it rise even further?

You know, my preference would be the latter. My preference would be to ensure the continuity of these businesses to keep employers off of the unemployment roll, to keep employees, misery, off the unemployment rolls and attached to their employer so we can ride out the storm. I think that's just better for the productive capacity of the economy going forward.

I mean, these businesses were all or many of them at least, most of them were profitable. They have lots of networks and relationships that have grown over time. There is lots of firm specific capital and, you know, lots of things that help workers and help households in a market economy that take a long time to regrow. And so I think spending some money up front in order not to lose all of that so wastefully I think is the better policy.

MR. WESSEL: Thanks. Beth, I wonder if I could ask you to talk a little bit about the Main Street Lending Program that Nellie described.

Do you think that this is going to be attractive to business? It's a loan, there is certain conditions on what you can do with the money. It's not nearly as cheap as the one percent PPP loans. Do you think this is going to be an attractive product for your customers?

MS. MOONEY: Yeah, and I will before-- thank you, David. And before I say that I just want to say one thing on top of Michael which is I think from a public policy point of view it's going to be unthinkable to have people in the pipeline for PPP and then have them tell them that the loans, the program's exhausted. So I think it is going to be one of those things whether it's one or two increments that we will need to extend and we can worry about debt and deficits later.

When I think of the Main Street Lending Program because we have already started talking to our bankers as well as a number of our customers about it, I do think it is going to be -- and I thought Nellie did a nice job of calling it the loan of last resort. That it will be part of a safety net for companies who otherwise would make it but have lost their credit worthiness and need something to get them through to the other side to get a loan that they commercially could not obtain in their current circumstances.

So to me, it is not going to be like the PPP loan. How do I get in line for a Main Street Lending loan to help facilitate my business through the cycle? It's going to get at that, I call it a negotiated workout type situation where a company just needs that much more to get through that the lender wouldn't necessarily take 100 percent of the risk.

Whatever the loss, you know, the sharing right now is proposed to be 5 percent, you still don't want to make a 5 percent of a bad loan so it's going to be I call it exogenous, negotiated, and part of getting people through and more of a safety net for companies that will be viable on the other side and can repay their debt that are extremely stressed right now.

So I think of it is as a kind of an adjunct to working through businesses that are troubled versus a grant or something that propels them through.

MR. WESSEL: I see. Kind of an alternative to bankruptcy. Nellie, you wanted to say something.

MS. LIANG: Yeah. So I wanted to add on the Main Street Lending firms, businesses that get PPP loans can also apply to Main Street Lending for a Main Street loan.

So if the initial, the PPP loan gets you only through two months, the bank with the borrower can think the model is viable after the crisis they're eligible for Main Street loans as well. So but again, it's not forgivable. It is a loan.

MR. WESSEL: Right. I'd like to invite my colleague, Josh Gotbaum to join us now. Josh is a guest scholar at Brookings. He has a lot of experience with Pension Benefit Guarantee Corporation at OMB, Treasury and the Defense Department and he and I have been talking about this for some time.

So, Josh, I want to give you a chance to weigh in and also to pose questions as you see fit.

MR. GOTBAUM: Good morning. You have all made the -- let me just raise some issues and ask questions from it. You've all made the point that in effect what is going on is the government is building the plane as its flying it. And I think that image is helpful in a number of respects. There are people who are getting on the plane who shouldn't. That's the fraud question.

And then there are people who are not getting on the plane because they don't have a relationship with an established SBA lender or at least a loan relationship with an SBA lender.

So one question is what's the best way to handle the people who are not currently -- who don't currently have SBA loans, those kind of businesses. Is the right approach to ask existing SBA lenders to take them on as new customers and exempt them from know your customer? What, you know, this is a question for Beth, I think and Sandy especially.

How -- what is the best way to make sure that we get the, all the people on the plane that we think should be on the plane?

MR. WESSEL: All right, Sandy, do you want to start with that?

MR. BARUAH: Sure. And this is a hugely important question and I think this is going to require a specific legislation to address and I think there are a couple ways that Congress can address this.

Number one is with the what they're calling the C4 package that is likely to come, the additional 250 or whatever dollars for the PPP program, there needs to be some language in there that says to the existing SBA lenders that some portion of this additional funds needs to be for customers that right now don't have the proper banking relationship.

Now, you cannot expect the banks or the federal government to exclude provisions such as know your customer or the Patriot Act. Right now we are dealing with this whole tension between speed and accountability. Right now as we are all living the crisis, we are all fixed on speed.

But the financial institutions and the federal government, they have this eye on what's going to happen next. And what's likely to happy next if we don't handle this right or if the right provisions aren't put in place or the right expectations aren't put in place is that the, you know, these stories of fraud which are sure existing right now that are just unknown, are going to bubble to the surface. And then the criticism afterwards both from, you know, from media, political opponents, however you want to phrase it will be pretty intense.

So we need to find some way, but it needs to be directed to say that okay, you know, we are going to get additional funds out in the pipeline but some portion of this needs to be set aside for those firms that don't have a banking relationship.

The other thing that needs to be done and this was envisioned in the, as the PPP was being developed, was that for non SBA certified lenders to have an expedited process to become SBA certified lenders. And that process is now occurring. Square now is an SBA certified lender and they are now able to participate in the program.

But for some of these other institutions, you know, they're not yet certified. But for these banks, I'm sorry, for these firms that especially are doing banking with say a foreign based firm, you know, like Deutsche Bank for example. They're going to need a place to go.

MR. GOTBAUM: And how would you --

MR. WESSEL: Josh, can I just let Beth weigh in here before you go?

MR. GOTBAUM: Sure.

MS. MOONEY: Yeah, and the only thing I would say is I think Sandy also made a good analogy to the disaster loans. You can't do it through a field office. You can't canvas the neighborhood in a world of sheltering and social distancing.

So it has to be through various kinds of online and virtual platforms and it has to be probably again on the ground through community groups that we know that can get through because with the 135,000 we sent was to our customer base.

So if you're an under banked, not with a or don't have a relationship with an SBA lender, you're going to have to create virtual partnerships and virtual ways to try and get that word out because you're not going to be able to use what has been some of the tried and true methodology that you would use in other disasters in order to create that outreach.

And then you're going to have to figure out a way to set up a relationship, get them a checking account, get them approved for KYC and get them through a process. Even though it's a forgivable loan, it still has basic criteria that will be cumbersome and we are going to have to figure out a process for that.

When I described the complexity of what it already took to get through people we knew and had accounts and had customers with this will be a degree of difficulty that we will have to all figure out as well.

MR. GOTBAUM: So there is a reader, a listener rather who asked and said her bank is so backed up that she can't be assured that she will get an application and she doesn't know where they are in the queue. And she asks, maybe Sandy knows this.

How does she find other lenders? She has claimed that she looked at the SBA website and couldn't find it. I know that in addition to Square, PayPal has also been an approved SBA lender. Is there some place you'd go to get a list of SBA lenders?

MR. BARUAH: So various organizations across the country have created lists. I would look at your local economic development organization, Chamber of Commerce, county website to look for SBA certified lenders that are participating in the Paycheck Protection Program.

The challenge is and, you know, Beth has alluded to this, Michael has alluded to this is that, you know, the banks that are participating in the program, one they, the line that they're working with is already very long and they do need to adhere to know your customer and the Patriot Act provisions. You know, that is a hygiene factor that cannot be -- cannot and should not be waived.

So this is why to respond to Josh's question, I think this is really going to have to take some legislative language that say that okay, more money is going to have to go into the system. One, that's going to address the fear of those people like even friends of mine that I was talking to last night that are in the exact same boat that the listener is where listen, I have a loan pending but I really can't get an answer.

And then the -- and then for the, those banks that just have, I mean, those firms who just have no place to go we need to address those two buckets of people almost immediately.

MR. WESSEL: Okay. Michael and then back to Josh.

MR. STRAIN: Yeah, so just very quickly, I think so much of this is being driven by the lack of adequate funding. You know, there is a scramble on the part of businesses, you know, in order to try and do this as quickly as possible which would happen without the absence of funding of course.

But what is happening with the banks is, you know, they think the money is going to run out. They're able to make, you know, reasonably generous processing fees on these loans. They obviously want to minimize their costs in processing the loans and so they're just naturally gravitating toward their existing customers base because they, this has been kind of structured as a very time limited program.

The Treasury's interim regulations explicitly say it's a first come, first serve program and, you know, that entire dynamic would change completely if the program were adequately funded. That would give banks some breathing room, you know, not to, you know, kind of behave in the rationale way that they are behaving. So I think it just underscores that need.

MR. WESSEL: Josh.

MR. GOTBAUM: Is there as a particular matter, I realize that saying to an economist there are always going to be constraints is kind of redundant but as a practical matter, all the banks, even if they are not under a budget constraint are going to have to decide how to allocate Beth's 15 or 20,000 people, what order they follow, et clear.

And my question is if Sandy is right that there is legislation, the Congress is clearly interested and worried about very small businesses, worried about equity, et cetera.

As a practical matter, Beth, what kind of processes could you guys do to give some assurance that the less banked, the unbanked, et cetera, nonetheless could be dealt with if you had a hand, in other words if you were talking to the Congress and saying give me X to protect me from a know my customer or whatever. But what could you do?

MS. MOONEY: A good question because I think what you would do is go back to your

CRA protocols and where have you built those community partnerships with various economic development, neighborhood development programs that have a better sense of the businesses that are within their neighborhoods.

And like I said, create the links and the ways to create the outreach because this is, had to be done virtually because of the times we find ourselves in. And as this continues, and maybe at some point if there is a lifting of some of the sheltering and social distancing, you can do it with some manual ways.

But right now I think you would go back to you CRA protocols and really call on the partnerships in your community that we've all built as we have delivered to the under banked and the low to moderate income neighborhoods.

MR. WESSEL: Just so people know, CRA is Community Reinvestment Act which requires banks to look at underserved populations. Josh, Sandy, go ahead. Sandy.

MR. BARUAH: Just a quick comment to Josh's question. So let's be clear. We are talking about two different things here.

So number one, we are talking about established firms that have banking relationships with non SBA certified lenders. So these in some cases are very established, very large, you know, a lot of companies that I represent that are in the automotive supply chain that are very successful companies but they don't have a baking relationships with again a bank like Beth's.

The other thing we are talking about which is separate is the under banked, you know, these kind of community -- these small businesses that are so important in our communities that may be working with smaller credit unions or non-traditional lenders that are also not SBA certified lenders. And I think those are two audiences that we need to describe and conquer in terms of how we address.

MR. GOTBAUM: And do you think that can be done by a combination of legislation? Does it require legislation to bring in both those audiences, those institutions, excuse me.

MR. BARUAH: Well, I think -- well, Beth referred to this in terms of, you know, one, you know, adhering to CRA protocols which most financial institutions have very good ones in place.

But also ensuring that and this would take legislation that these community based, you know, revolving loan funds, these community based organizations that do make loans to neighbored, a neighborhood business, that they are somehow able to participate in this program.

But I also go back to Michael's point which I think is incredibly important which is, you know, what is the pool of funding available? If the pool of funding available, you know, was assuredly sufficient to cover all needs, then this time compression that everyone feels and this resourced allocation that especially the larger financial institutions have to make at this time, some of that pressure gets alleviated.

MR. WESSEL: Beth, you wanted to comment?

MS. MOONEY: Yeah. I would just briefly say the pool that is not with an SBA -- an approved SBA lender, the other one, the non-low to moderate or undeserved, if there was more money and a little more time that water would find its way through the dam. And so that one I think will take care of itself.

It, Michael adequately said this is a diminishing resource. Time is of the essence and so it has created a compression for people who having well known banking relationships and can get through. A little more money and a little more time I think that would find its way through.

MR. WESSEL: Is it since we've talked about the fact that this is intended to be both a business continuity program and an employment continuity program, do we have any indications yet as to how successful it will be in for example as Michael mentioned, reemploying those people that small businesses have already laid off?

MS. MOONEY: I could give anecdotes, and I would say that anecdotally as we have worked with the customers base who are applying with this, it is the difference between their survival or not and keeping people employed or not. So the testimonials and the real life stories of is this going to make a dramatic difference and impact, anecdotally I would tell you absolutely.

MR. STRAIN: Yeah, I mean I, you know, I think we -- I mean, look we know it's, you know, I mean, the number get updated so rapidly but I think it's something like a million of these loans have been made, you know, 900,000 to a million. $220 billion allocated or committed in terms of approved loans so far.

You know, the requirements of the program are that you can't lay off your workers if you get that money. At least --

MR. WESSEL: That's not actually quite true, Michael. The requirements of the --

MR. STRAIN: Well, if you want to have a -- yeah, sure. Sure. If you want to have a, the full amount of the grant you can't lay off your workers.

MR. WESSEL: And you can lay them off after June 30 and still have, be forgiven right?

MR. GOTBAUM: Well, actually you can lay them off until and rehire them on June 30 as long as you spend 75 percent of your loan on payroll related costs. So --

MR. STRAIN: Yeah, from the date the loan is --

MR. GOTBAUM: -- there is a tension there.

MR. STRAIN: -- originated for eight weeks you have the opportunity for the loan to be forgiven provided that you spend 75 percent of the loan on payroll costs. And you maintain your FTE and if you lower your FTE then the amount of money that gets forgiven is prorated. If you reduce wages below 25 percent the amount of the money that's forgiven is prorated. I mean, there are a lots of program details.

But the basic point of course is that if you're taking out the loan and you're getting a big portion of it forgiven, then the idea is that you're keeping your workers on payroll.

And so I think that we can have at least some confidence that, you know, a large share of the people who work for those one million small businesses will be keeping their jobs. You know, of course the question is in the absence of the program how many of them would have lost their jobs? The answer is surely not all of them. But you know, I think a good number of them have.

I mean, the extent to which the labor market is rapidly descending really can't be overstated. In the three week period that ended earlier this month and for which we have the most recent data, we had 17 million people apply for unemployment insurance benefits for the first time. And those are the people whose applications actually went through. So the number of people who lost their jobs is almost surely above 20 million.

There is no period of history in the United States where anything remotely like that has happened. It took two years during the Great Recession for the unemployment rate to double from 5 percent in December of 2007 to 10 percent in October of 2009.

In mid-February, our unemployment rate was 3.5 percent. Two months later our unemployment rate has tripled to above 15 percent. So we are in a calamity like we have never seen in terms of how quickly the labor market is deteriorating.

And, you know, so it's a safe bet that a lot of those million, a lot of those one million people who have received a loan very likely would have laid off their workers. And if we are getting a continue with this shut down, a lot of those businesses would almost surely close because small businesses don't have a lot of cash reserves.

So I think we can say at this point that the program has been effective. The question is just how effective and the more important question is how can we continue its effectiveness?

MR. GOTBAUM: Michael, you might be the right person to ask this to. The U.S., we've done two things. We have used the tax system to send checks to close to everybody. And we have used the SBA loan system to provide and, excuse me, and the state UI system to provide subsidies to those who are laid off, and we have used the loan program to try to get this decision to keep people on payroll.

In the UK and in much of Europe, they have taken a different approach. They've said in effect to businesses we will send you checks for 80 percent of your payroll. I am a refugee from the federal Office of Management and Budget and therefore to me it was surprising that the UK government said we will pay 80 percent to pay up to about $36,000 a year, essentially without limit to the entire country.

We obviously, the U.S. Congress made the decision not to do that. Could you talk about the pros and cons of the loan approach versus the direct wage subsidy approach that the UK and the other European countries have undertaken?

MR. STRAIN: Yeah, I mean, I think it's an intriguing difference. And, you know, a lot of different countries are going about economic recovery efforts in different ways and so I, you know, I think we will have to see what works.

It's not immediately obvious to me (inaudible) which of these approaches is the best. I mean, I think for the United States, it's just extremely difficult to stand up new programs. So that to me is the strongest argument in favor of the approach that the federal government has taken.

You know, despite all the challenges that have faced the PPP program in terms of its implementation, you know, the program still leverages an existing SBA infrastructure. The program still leverages an existing banking network. The program still leverages existing relationships between small business and between their banks. Even given all that infrastructure with the program is using there have still been significant implementation challenges.

MR. GOTBAUM: And do you think had we for example we are already using the IRS to mail checks. Suppose we had said to the IRS rebate 80 percent, rebate 85 percent of payroll to all businesses below revenues of X or Y. Is that an alternative that one could do? I know this plane has already taken off. So I realize that but since --

MR. STRAIN: Yeah, so I think the --

MR. GOTBAUM: -- some of the other countries.

MR. STRAIN: -- I think the experience with the rebates actually suggests that Congress did the right thing with PPP. You know, even getting IRS to issue those rebate checks which are, you know, kind of a small dollar, flat amount, very easy to calculate how much a household should get, you know, that has taken a good amount of time to get that money out the door.

Now imagine if the same Treasury Department were attempting to implement a program where it would pay 80 percent of payroll wages up to a certain threshold, you know, provided there are X, Y and Z criteria. You know, because I think it's, I think it's very likely that that kind of an approach would have resulted in a much slower process of getting money out the door and into the hands of these businesses.

MR. WESSEL: Beth, you obviously have something to say.

MS. MOONEY: Yeah.

MR. STRAIN: I would just flag the, you know, I would just flag the real urgency in getting this money out the door. I mean, the, again the labor market is deteriorating remarkably rapidly so erring on the side of speed I think was the right decision.

MS. MOONEY: And I think there is also making sure you understand what you're trying to pay. I don't think the IRS has through business tax returns all that good a line of sight to actual operating costs.

So our tax system doesn't give you that transparency that they would be targeting in a way where they would be doing it on an informed basis. So using your banks as a distributor, while you're holding us harmless as a distributor, we are still required to go in and the borrower certifies it, and make sure we understand what the payroll is in order to advance those funds.

And I think there still is an element in here of speed but also making sure its accountability in getting to the right purpose that I don't think could have been done through Treasury and the IRS.

MR. GOTBAUM: We also, one of our other viewers put in a request, a question about the other side of making, fixing the plane while you're taking it off which is what about the people who should be on?

Nellie and actually David and probably Sandy, you all have watched the after action attempts to deal, dig out fraud abuse, misuse, et cetera in 2008, 2009.

One question that our viewer asked is what can be done, recognizing the premium is on speed, that the premium is on having financial institutions be conduits rather than bankers. What can be done after the fact -- what can be done now and what can be done after the fact to reduce the incidence of fraud?

MR. WESSEL: Nellie, do you have any views on that?

MS. LIANG: I think the, I actually think the programs that they've put in place, the rules are fairly reasonable. If you try to add too much more you will definitely jeopardize speed.

Congress allocated money to give as grants or transfers to small businesses under reasonable conditions. I think if you add too much more you will jeopardize speed. And even with we have had a discussion about if you add more money to the pot things will slow down and the urgency and panic on the part of borrowers will be alleviated.

But many are trying to meet expenses that are coming due this week and next week and so even though you know it's coming, you may need it now. And so I don't think we can underestimate the importance of speed and accountability is in part met by small amounts, fairly small amounts for each loan. And I think that's about what you can, those are good, good processes in place.

MR. GOTBAUM: Sandy, does the, does SBA have experience --

MR. WESSEL: Let me go to Sandy and then a final question to Beth.

MR. GOTBAUM: Yeah.

MR. BARUAH: Yes. Josh, the quick answer to your question is not much in terms of what we can do to kind of recover the fraud issue.

We have all said it. We are in a balance between speed versus accountability and right now, the onus is on speed. And that's the most important thing we can do for our economy, that's the most importance thing we can do for employers and workers.

That does not mean that after the crisis settles down that the fraud that is sure to exist that will be uncovered will be not -- will be used for political purposes, will be used in the media. I think we just have to chalk that up to this is a price we are going to have to pay.

There are too many -- there is too much that we are creating as we are making it up as we go along that goes to the federal government and the financial institutions. There is too many links in this chain to ensure the kind of accountability systems that we would normally want.

So I just think we need to get comfortable with the fact that there is going to be a level of fraud. I think that federal government has been fairly responsible in what they are requiring the financial institutions to hold themselves accountable to. We will just have to live with what we get.

MR. WESSEL: and, Beth, do you have any responses to this?

MS. MOONEY: And it is while we are a distribution channel or the distributor, we are not abandoning what I would call some basic principles of how to extend money.

So our process of gathering the application, getting the certifications on payroll, the basic documents while not as high a standard as you would do for a full SBA loan, it's not lacking in standards. It's not like you can just fax in an amount and we'll put it through the pipe.

So there is a sincere effort on the behalf of the banks to try and minimize fraud and use some of our protocols and our expertise in that regard. But we recognize given what it is, it will be, fraud will be more outsized than it would typically be.

MR. WESSEL: Sure.

MR. GOTBAUM: Beth, I wondered if you could address the person who has a small business, who is trying to get a loan, is kind of stuck in the queue, not whether they have a banking relationship or not, what is the best practical advice you can give to someone right now who is trying to figure out how to get in this program?

MS. MOONEY: Two pieces of advice. Call your bank or see if they have -- we have created an online tracking tool so people can see where they are in the process so they have some line of sight of when they're going to get submitted and approved.

Call your banker and say, you know, where are you? Can you give me some assurance about when I'm going to get through the gate? Because once you've already started somewhere that's still probably your best shot at getting through.

And then if you have another bank but right now like I said it is a limited resource. Most banks have shut down the application process. I know we have, until there is more funding so I would work really hard to ride the horse you have and then start building maybe somebody else that you could go to if there are additional funds. But odds are if you're in the queue somewhere, you're in better shape than not.

MR. WESSEL: I see. Well, I think this has been a very useful and interesting discussion.

As its been pointed out, this is a pretty ambitious program for a pretty extraordinary time.

I want to thank all the panelists, Michael Strain from AEI, Nellie Liang from Brookings, Beth Mooney from KeyCorp, Sandy Baruah from the Detroit Regional Chamber of Commerce and my colleague, Josh Gotbaum, for joining me in this conversation.

If you have questions that we didn't get got, feel free to email us. We will, you can send it to me at dwessell@brookings.edu and we will do our best to get you answers. I'm not in the business of making loans so I can't help you get your application through.

And we will post the video and eventually a transcript of this on our website so you can watch it again. Thank you all.

MR. GOTBAUM: Take care.

MS. MOONEY: Thank you.

MS. LIANG: Bye.

MR. WESSEL: Bye.

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