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SECURED FINANCE NETWORK

June 11, 2020

Via E-Mail:

The Honorable Steven T. Mnuchin
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington D.C., 20220

The Honorable Jovita Carranza
Administrator
U.S. Small Business Administration
409 3rd St, SW
Washington DC 20416

RE: Urgent Request for Explicit Eligibility of Non-Bank Lenders for Paycheck Protection Program

Dear Secretary Mnuchin and Administrator Carranza:

I have reached out to you both previously on behalf of the \$4 trillion secured finance industry (see letters of March 31st and April 8th attached) to commend the introduction and expansion of the Paycheck Protection Program (“PPP”) and ask your assistance to explicitly allow financial services companies, particularly small non-bank lenders and factors, to be eligible borrowers under the Program.

We are encouraged by your comments that you are still seeking to assist parts of the economy that are damaged, which is why I am writing today with an **even more urgent request** to allow small lenders to access PPP.

As discussed below, the member companies of our trade association, the Secured Finance Network, are seeing a significant decline in revenue due to the laudable success of PPP. At the same time, our

member companies are unable to access PPP themselves, which is creating severe stress for many small lenders. Finally, we anticipate even more distress for our member companies due to the additional flexibility included in the Paycheck Protection Program Flexibility Act.

Our independent lenders who have nearly \$40B in outstanding loans to small and medium sized businesses have seen an average 50% reduction in loan balances directly attributable to their borrower's receipt of PPP funding. This suggests that \$20B of the monies granted under the Program have replaced existing lines of credit, resulting in significant hardship to our independent lenders and jeopardizing their ability to continue to support their borrowers. Again, what compounds the pain of this loss of revenue is that these companies are expressly ineligible for relief themselves!

Our members are not Pay-Day or predatory lenders, but are often multi-generational family businesses who conform to transparent Principles of Fair Business Practices and provide working capital solutions that have long been essential to fueling our nation's engines of commerce.

Perversely, these institutions, many of whom are not owned by deep pocketed investors, and who are a critical conduit of capital flows for our economy are now facing material economic hardship, not only from reduced economic activity, but by the displacement of revenue streams due to the success of PPP!

While one can argue that the relief to small borrowers will provide benefit to these lenders overall and over the long term, the financial hardship **they are experiencing is immediate and potentially catastrophic**. Failure to include these lenders as eligible borrowers under PPP will result in business failures that will not only undermine the policy objectives of the Program, but create a multiplying effect by curtailing available capital flows just at the time our economy needs these most.

We have been encouraged by reports that over 4.5 million small business PPP loans, totaling more than \$500 billion, have been granted to help tens of millions of workers stay employed, as many of these are customers of our member companies. However, Congress made clear in the original statute that PPP was established to help *all* small businesses and our small lenders are an essential part of this ecosystem.

We do not believe the Economic Injury Disaster Loans (EIDL) or the Main Street Lending Program are acceptable substitutes for the PPP. These loans, which must be paid back in their entirety would more likely result in small finance company decisions to reduce payroll rather than taking on significant debt in times of economic uncertainty.

Given the limited time afforded by the June 30th deadline to access remaining PPP funds we ask that you to take immediate action to:

1. Eliminate the exclusion of non-bank lenders and factors for eligibility under the traditional SBA 7(a) Program, set forth in 13 CFR 120.110(b) in the PPP Interim Final Rule
2. Carve out up to \$20B in PPP funds explicitly for these institutions as borrowers
3. Consider extending the June 30th deadline and the available pool of PPP funding to address these inequities.

These extraordinary times require thoughtful, inclusive and decisive measures to ensure all small businesses impacted by this crisis receive the support they need to forge a path to recovery. Our small lenders are an integral part of this system. We strongly urge you to permit these lenders that

are crucial sources of funding for so many companies to themselves be eligible borrowers under PPP. This is completely consistent with the policy behind the measure and critical to sustain the flow of capital needed to rebuild and sustain our economy. Please contact me at any time at rgumbrecht@sfnet.com or 212.792.9391 to discuss this urgent matter. Thank you again for your consideration and continued stewardship of our great country.

Respectfully,



Richard D. Gumbrecht
Chief Executive Officer
Secured Finance Network

cc.

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

The Honorable Charles Schumer
Minority Leader
United States Senate
322 Hart Senate Office Building
Washington, D.C. 20510

The Honorable Nancy Pelosi
Speaker of the House
United States House of Representatives
Washington, D.C. 20515

The Honorable Kevin McCarthy
House Minority Leader
United States House of Representatives
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The Honorable Marco Rubio
Chairman
Senate Committee on Small Business &
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The Honorable Nydia Velazquez
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The Honorable Ben Cardin
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The Honorable Steven Chabot
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2069 Rayburn House Office Building
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Members of United States Senate
Members of United States House of
Representatives

The Secured Finance Network (formerly known as the Commercial Finance Association) (“**SFNet**”) is the international trade organization founded in 1944 representing the asset-based lending, factoring, trade and supply chain finance industries, with 1,000 member organizations throughout the United States. Our network of Secured Lenders, Finance Companies, Service Providers and others do the essential work of providing capital that fuels our nation’s economy.

The \$4.1T secured finance industry underpins, either directly or indirectly, about one-fifth of the transaction volumes that make up the \$20 trillion US gross domestic product. We estimate the number of those directly employed in either providing or supporting secured financing activity is approximately 60,000 individuals at over 5,000 commercial banks and another approximately 1,500 non-depository lenders across the US.

Secured transactions provide financing to over 1 million US commercial entities, ranging from single-employee firms to large corporate and public enterprises. Roughly one-third of the approximately 4.6 million firms in the US with at least two employees directly feel the impact of secured finance. And the benefits affect not only the enterprises, but also more broadly their employees, customers, communities and the economy as a whole.