Congress of the United States
Washington, DC 20515

The Honorable Jerome H. Powell
Chairman
Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue, NW
Washington, DC 20551

July 2, 2020

Dear Chairman Powell,

We appreciate your ongoing efforts to help businesses gain timely access to affordable credit during a period of economic turmoil caused by the COVID-19 pandemic. As members of the New Jersey Congressional delegation, we write to express concerns about the potentially restrictive qualifying criteria that the Federal Reserve has developed for the Main Street Lending Program (MSLP).

It is our understanding that the MSLP was established to complement the Small Business Administration's efforts by helping small and medium-sized businesses access emergency liquidity. While we understand that the Federal Reserve has a responsibility to carefully evaluate risk and maximize the likelihood that loans made with taxpayer dollars are repaid, we fear that overly stringent qualifying requirements will be too exclusionary for many business and industries and could therefore have a devastating impact on thousands of working families in our districts.

As the Federal Reserve finalizes the program, we ask that you clarify the eligibility for certain businesses like developers and operators of real estate assets that take a more active role in managing properties than traditionally passive businesses. Currently, the program applies blanket SBA guidance to determine eligible borrowers, which states that passive businesses that do not actively use or occupy the assets acquired are ineligible,[1] but does not factor in instances of active management where owners are engaged in the construction, financial planning and oversight of their businesses.

We also ask that you give full and fair consideration for asset-based borrowers who currently face challenges with the loan size metrics laid out in the program's term sheets. Asset-based borrowers in industries such as construction, hospitality, and manufacturing are in critical need of capital that is currently unavailable or hard to access in traditional markets. The MSLP currently limits the maximum loan size to a multiple of a borrower's earnings before interest, taxes, depreciation, amortization (EBITDA). The Federal Reserve has already recognized that in practice, the credit risk of asset-based borrowers is generally not evaluated based on EBITDA.[2]

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[1] https://www.sba.gov/sites/default/files/files/5000-1322_0.pdf
[2] https://www.federalreserve.gov/monetarypolicy/files/main-street-lending-faqs.pdf

We are concerned that the current standards do not reflect the risk-assessment best practices for some industry lenders and therefore ask that the Federal Reserve consider adjusting the metrics of loan size to better reflect industry-specific underwriting practices.

As you consider these changes, we emphasize our support for accountability protections and safeguards on any loans made through the MSLP to ensure that taxpayer dollars are used responsibly. We believe that any changes made to the programs should be transparent and put workers first. Lastly, we make it clear that the concerns in this letter are uniquely attributable to the MSLF program and do not apply to other programs under Treasury or SBA including the 7(a) program.

Thank you for your consideration. We look forward to working with you on these important issues.

Sincerely,

Andy Kim
Member of Congress

Donald Norcross
Member of Congress

Donald M. Payne, Jr.
Member of Congress

Bill Pascrell, Jr.
Member of Congress

Bonnie Watson Coleman
Member of Congress

Albio Sires
Member of Congress

Tom Malinowski
Member of Congress

Josh Gottheimer
Member of Congress

Mikie Sherrill
Member of Congress

Frank Pallone, Jr.
Member of Congress

Cc: The Honorable Steven T. Mnuchin, U.S. Department of the Treasury