100 State Street, Suite 440
Albany, NY 12207

518-434-1262
518-426-8799
NFIB.com

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Testimony on Behalf of NFIB (National Federation of Independent Business) to New York State Senate Committees on Banks and Commerce, Economic Development and Small Business regarding COVID-19's Impact on Small Businesses in New York and their access to capital.

Testimony delivered by Greg Biryla, NFIB's NY State Director

I am Greg Biryla, NY State Director for NFIB (the National Federation of Independent Business), representing thousands of small businesses across every community and neighborhood in New York and hundreds of thousands across the nation. The average size of an NFIB member in New York is 10 employees.

On behalf of our NFIB New York team and all the small businesses on the frontlines of COVID's economic disruption, we thank Senators Kaplan and Sanders for this opportunity.

I wish all of you, your families, and your communities nothing but safety and wellbeing.

Compared to the financial and subject matter experts testifying before me, I do not present myself as an authority on lending or commercial finance. But seven months into the pandemic, I hope to share the experience and perspective of our members and small businesses in accessing emergency funding during COVID and some of the challenges that remain.

New York's economy began its phased, regional reopening for non-essential businesses in June, with most businesses and industries currently permitted some degree of operation. Five months into our reopening strategy, New York State carries the 3rd highest unemployment rate in the nation at 12.5 percent[1]. For obvious reasons, this presents immediate and long-term burdens for our state's economy and the small businesses that fuel it.

This figure would undoubtedly be higher if not for the federal Paycheck Protection Program passed as part of the CARES Act in March. The forgivable loan program funneled $520 billion dollars to millions of businesses across the United States, including more than 300,000 in New York.

This program, conceptualized and passed in a matter of days, injected desperately needed capital to directly assist businesses with payroll and specified overhead costs. A funding effort of this scope

[1] Unemployment Rates for States, Seasonally Adjusted (August); US Bureau of Labor Statistics

enacted with such alacrity was bound to be imperfect. Several design and administrative flaws were soon apparent which Congress improved with subsequent legislation.

The initial and most frequent complaints centered on access to the program through private lending institutions. The experience of our membership varies and is anecdotal, but several conclusions can be drawn.

- Businesses with an existing banking relationship, particularly a lending relationship, found more efficient access to PPP funding.
- Small businesses who were able to deal with community banks, credit unions, and even larger, regional banking institutions were largely satisfied in their ability to access PPP funding.
- The largest, national retail banking institutions were the least responsive to small business clients.
- The initial, rigid structure of PPP loan use (75% of funding for payroll expenses, 25% other costs – mortgage interest, rent, utilities) unintentionally punished certain types of businesses with high real estate or equipment costs. This was likely exacerbated in New York City where rents and mortgage costs are proportionally greater than other markets.

NFIB, among other organizations, tirelessly advocated for these flaws to be addressed which resulted in future iterations of the Paycheck Protection Program easing the threshold on payroll expenses required for forgiveness (60%) and prioritizing lending through credit unions, community banks, and non-traditional lenders.

The most recent NFIB COVID-19 Small Business Surveys indicate widespread satisfaction with the Paycheck Protection Program from small businesses.

- 74% of NFIB's members applied for a PPP loan. [2]
- 97% were successfully approved for funding, 100% have received their funding. [3]
- 81% accessed PPP loan funding through their normal banking institution. [4]
- Only 4% of NFIB members expressed overall dissatisfaction with the PPP loan program.[5]

While successful, PPP loans were designed to be temporary lifelines and significant challenges remain.

- 84% of small businesses have experienced a decrease in sales.[6]
- 86% have exhausted their PPP loan funds.[7]
- 49% anticipate needing additional government funding support over the next 12 months.[8]

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[2] COVID-19 Small Business Survey (12), PPP, EIDL, The Economy, and Payment Deferrals. NFIB Research Center. September 28-30, 2020.
[3] Ibid
[4] COVID-19 Small Business Survey (11), PPP, EIDL, Unemployment Insurance, The Economy. NFIB Research Center. August 17-18, 2020.
[5] Ibid
[6] COVID-19 Small Business Survey (12), PPP, EIDL, The Economy, and Payment Deferrals. NFIB Research Center. September 28-30, 2020.
[7] Ibid
[8] Ibid

- 40% do not believe they will be operational 12 months from now if economic conditions don't improve.[9]
- 22% believe they will have to lay off employees within 6 months after their PPP funds have been exhausted.**[10]**

The New York Forward Loan Fund is also an emergency funding relief option available to small businesses through Empire State Development. NFIB does not have specific data regarding small business utilization and satisfaction for this program. For various reasons, it appears NFIB members in New York did not find this program overly attractive during this emergency period. One likely explanation is that the program initially prohibited small businesses from applying if they had previously received PPP funding. As mentioned, a high percentage of NFIB members utilized PPP loan funding, thus initially excluding them from the NY Forward Loan Program.

The New York Forward Loan Fund was recently expanded to include small businesses who received PPP loans of less than $50,000.[11] As evidenced in NFIB COVID-19 Small Business Survey (12), this is a likely wise change to the NY Forward Loan Program and should be considered for any future New York State loan or grant programs. New York State's policy aims should be to preserve and support as many struggling small businesses as possible. A significant majority of small businesses have utilized PPP programs, and many of these same businesses will need additional funding depending on industry and market conditions.

In terms of general access to capital, outside the direct COVID-19 discussion, it is not an issue than NFIB's NY State office hears with significant frequency compared to more burdensome, systemic problems in New York State. That is not to dismiss access to capital is a problem, particularly for minority-owned businesses, women-owned businesses, or businesses in economically challenged urban and rural communities.

By our nature, NFIB represents small businesses already in operation, often for years or decades. For obvious reasons, established businesses have easier access to credit than start-ups or new enterprises. That being said, NFIB has done its best to track our members thoughts on accessing capital and the behavior of credit markets toward small businesses.

NFIB's Quadrennial "Problems and Priorities" Survey, published in 2020 and conducted via mail survey to NFIB members between February and mid-March of this year provides some insight. It should be noted that this survey's timeframe essentially excludes any impact related to the COVID-19 pandemic, or any state and / or national responses to it.

The "Problems and Priorities" survey askes small business owners to rank 75 common small business problems from 1 (critical problem) and 7 (not a problem). The 2020 edition also includes New York as one of four "breakout states" that highlights the specific responses from 252 New York Small businesses drawn from a sample of 1500.[12]

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[9] COVID-19 Small Business Survey (11), PPP, EIDL, Unemployment Insurance, The Economy. NFIB Research Center. August 17-18, 2020.

[10] COVID-19 Small Business Survey (12), PPP, EIDL, The Economy, and Payment Deferrals. NFIB Research Center. September 28-30, 2020.

[11] New York Forward Loan Program, Empire State Development.

[12] Small Business Problems and Priorities 2020. Holly Wade, Andrew Heritage: NFIB Research Center. Pages 97-102.

- "Obtaining short-term business loans (less than 12 months or revolving)" ranked 66th out of 75 for New York small business owners with 7.9% identifying it as "critical" and 44.7% identifying it as "not a problem".[13]
- "Obtaining long-term business loans (5 years or more)" ranked 68th out of 75 for New York Small Business Owners with 5.9% identifying it as "critical" and 48.4% identifying it as "not a problem."[14]

These findings in New York closely mirror national sentiment from small business owners on these specific topics with access to short-term capital ranking 68th and access to long-term capital ranking 67th, respectively, among small business owners nationally.

For comparison:

- 37.5% of New York small businesses identified property taxes as "critical".
- 32.7% identified business income taxes as "critical".
- Lastly, 20% found the "cost and availability of liability insurance" to be a critical problem in New York while only 8.6% percent found liability insurance to be "not a problem". Access to liability insurance ranked as the 7th worst problem in New York State compared to 14th nationally. [15]

The cost and availability of liability insurance is important to note because I believe it directly intersects with any broader conversation about access to capital and presents a specific, demonstrated barrier of entry and barrier to growth for small, under-capitalized, young, minority-owned, and women-owned businesses.

Labor Law 240-241 continues to cause a general liability insurance crisis in construction industries and related fields. Un-insured or under-insured contractors, often smaller in scale and more likely to be MWBE, have significant problems securing bonding for projects and financing their own growth because of cost and scarcity for general liability insurance in the construction services space.

Further, New York's generally litigious environment, increases insurance cost for all small businesses and makes it even more difficult for young and MWBE businesses without substantial experience and history to affordably secure liability insurance and other financial instruments like capital loans.

This systemic problem will be exacerbated unless common-sense liability protections related to COVID-19 are enacted federally or by New York State for small businesses acting in good faith.

NFIB also urges the consideration of additional programs and policy reforms to ease COVID-19's disproportional burden on small businesses:

- Enacting small business tax relief: S.5954a / S.6309a.

- Creative and low-value grant programs to assist with immediate costs associated with Personal Protective Equipment (PPE) acquisition and other COVID-19 caused cost burdens, including but not limited to: personal and surface sanitizer, face and hand coverings,

[13] Ibid.
[14] Ibid.
[15] Ibid.

personal space separators and barriers, HVAC filtration and upgrades, air purification, disposable material replacement: S.8568 / A.10920.

- Grant and loan programs specifically directed to small businesses, without strict exclusions for Paycheck Protection Program recipients.

- Protection against surprise unemployment insurance taxes related to layoffs caused by COVID-19 and / or New York State mandated shutdowns. A portion of expected federal relief funds should be used to directly stabilize New York State's unemployment insurance trust fund and / or legislation should be enacted to freeze unemployment insurance experience ratings for small businesses: S.8231a / A.10297-A; S.8249 / A.10817; S.8179.

Thank you again for this opportunity. NFIB appreciates continued dialogue and engagement with all stakeholders committed to protecting and supporting New York's small, independent businesses.