Congress of the United States
Washington, DC 20515

April 23, 2020

The Honorable Jerome Powell, Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue N.W.
Washington, D.C. 20551

The Honorable Steven Mnuchin, Secretary
Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Chairman Powell and Secretary Mnuchin,

Thank you for your timely efforts to implement the provisions of the CARES Act that provide liquidity to businesses, local governments, and nonprofits. The law's unprecedented lending facilities have the potential to protect the livelihoods of millions of Americans whose jobs have been jeopardized by the economic fallout of the COVID-19 pandemic. However, we're concerned that the terms you established for the Main Street Lending Program prevent emerging businesses from accessing this financial lifeline.

The maximum loan size under both of the Main Street Lending Program's facilities is calculated using the borrower's earnings before interest, taxes, depreciation, and amortization (EBITDA), a measure that approximates a firm's profitability. As a result, the Federal Reserve effectively requires borrowers to have a positive EBITDA in 2019 to access these loans.

The Federal Reserve stated that the purpose of the Main Street Lending Program is to "support lending to small and medium-sized businesses that were in good financial standing before the onset of the COVID-19 pandemic." The Federal Reserve has a responsibility to ensure that loans made with taxpayer dollars are repaid, but requiring that lenders only consider EBITDA unnecessarily limits lenders from providing funding to firms that would otherwise be able to repay loans.

Many startups and growth-stage businesses have a negative EBITDA in 2019 because they invested in growth before the pandemic. These investments are vital for a business's long-term success and that of our economy, even though they result in an accounting loss in the short term. Instead of punishing businesses for investing in growth, the Federal Reserve should allow lenders the flexibility to use alternative metrics such as a recent month's EBITDA, EBITDA discounting other investments (e.g., investment in growth), a multiple on revenues, month-over-month growth of revenue, or company valuation. Because private lenders retain a five percent stake in these loans, they have an incentive to lend to borrowers that are able to repay loans.

Without changes to the Main Street Lending Program, many emerging midsize businesses will be ineligible for this program which could have devastating effects on the employees of many otherwise successful companies. Lending to midsized startups does not pose a moral hazard or constitute a bailout because a negative EBITDA does not reflect on whether the business would have been viable had the pandemic never occurred. In fact, the Program's current terms create a disincentive for firms to invest in growth in normal times since the federal government is effectively punishing such investments.

The Main Street Lending Program should not only ensure that today's thriving businesses survive but also support those businesses with the potential to drive expansion when the economy recovers.

Thank you for your consideration of our important request, and we look forward to your prompt reply.

Most gratefully,

Anna G. Eshoo
Member of Congress

Cathy McMorris Rodgers
Member of Congress

Zoe Lofgren
Member of Congress

Will Hurd M.C.
Member of Congress

Ro Khanna
Member of Congress

Earl L. "Buddy" Carter
Member of Congress

Jackie Speier
Member of Congress

Vicky Hartzler
Member of Congress

Mike Thompson
Member of Congress

/s/
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