How the business loan program would work in the $2T coronavirus package

By Niv Elis - 03/25/20 05:34 PM EDT – The Hill

The final version of the $2 trillion coronavirus stimulus bill devotes hundreds of billions of dollars in support of loans to companies that are intended to keep them from failing and laying off workers.

The bill includes a variety of mechanisms for businesses of different sizes. Among the most important is a $367 billion program aimed at keeping the country's unemployment rate from skyrocketing.

"We have never done anything like this before," said Sen. Pat Toomey (R-Pa.), a conservative who would not normally be expected to back a $2 trillion spending bill. "The idea is to encourage these companies to keep workers on the payroll."

Small and medium businesses with fewer than 500 workers will be able to apply for government-backed, forgivable loans to cover the costs of their workers' wages, as well as some other business expenses such as rent, up to a maximum of $10 million.

If companies lay off workers, however, parts of the loan will not be forgiven.

"This provision is super important – maybe the most important," said Derek Klock, a financial expert at Virginia Tech. "So many people are employed by small businesses and yet small businesses don't have an alternative method for financing," he noted.

It includes a $10 billion fund of emergency relief grants set up to help struggling businesses cover other expenses.

For larger companies with up to 10,000 workers, the government is providing tax credits covering 50 percent of employee wages.

For workers who still lose their jobs, the bill offers additional support to unemployment programs.

It creates a special Pandemic Unemployment Assistance program that will expand coverage to the self-employed, independent contractors and people with limited work history, who typically are iced out of the benefit.

Democrats also secured an addition of $600 a week to all recipients of unemployment insurance, an amount that's roughly 1.5 times more than the average benefit. That figure has led to a last-minute fight over the bill, with GOP Senators Tim Scott (S.C.), Ben Sasse (Neb.), and Lindsey Graham (S.C.) fretting that it could lead people to make more money by getting unemployment than by working.

"I think we need to fix this now because it only makes the problem worse," Graham said, noting that the benefit would be higher than some existing salaries. Critics say additional caps would slow the process

of paying out benefits, and that workers who quit their jobs would not be eligible to apply for unemployment.

Business loans in the package go further than providing money to keep workers. Another $500 billion is set aside to pump credit to struggling businesses. Of that, $46 billion would go toward programs to save the airline industry and other reeling companies deemed important to national security.

“What makes the airlines different is they're an important part of the supply chain,” said Douglas Holtz-Eakin, president of the right-leaning American Action Forum.

While bankruptcy would normally be a good option, he argued, the fact that planes were grounded due to the pandemic might make bankruptcy rules unworkable. If the industry collapsed, so would a significant amount of commerce.

“This won't look like a normal bankruptcy because it's not a normal time,” he said.

The other $454 billion would be used to leverage Federal Reserve loans.

Because the Federal Reserve is not allowed, by law, to take a loss on its loans, it is limited in the kinds of credit it can offer. The Treasury funds would allow it to put out trillions more in business loans by covering potential losses, Toomey said.

Democrats pushed hard to have stricter oversight on that bucket of cash.

“The bottom line there is that we will know very shortly after any contract with the Fed or with the Treasury is signed with a company and any loan is made, we'll have the full details of the loan document,” Senate Minority Leader Charles Schumer (D-N.Y.) said in a CNN interview.

There will also be an inspector general and a congressional oversight panel to examine the loans. Schumer credited Sen. Elizabeth Warren (D-Mass.) for helping design this oversight. The former presidential candidate first rose to political prominence while overseeing TARP, the bailout fund set up for banks during the Great Recession.

Loans would come with strings, such as limitations on stock buybacks, executive compensation and layoffs.

Companies linked to President Trump, Vice President Mike Pence, members of Congress and heads of executive departments will not be eligible.

Experts mostly offered compliments for the bill, saying it would help keep the economy afloat, though some had caveats.

“Overall this is good, it should get out quickly,” said Heidi Shierholz, an expert at the left-leaning EPI and former chief economist to Labor Secretary Tom Perez.

“But I don’t think it’s going to be enough,” she added.

Among the problems Shierholz identified with the bill were that there aren’t clear enough guidelines for

big businesses taking Fed loans to keep workers employed.

“The most glaring, real problem in the bill is that the industry bailouts do not have the provisions that you can’t lay off workers,” she said, noting that the bill text merely requires them to keep workers to the greatest extent practicable.

She also noted that the unemployment provisions don’t cover new entrants to the labor market, such as recent high school or college graduates, nor re-entrants, such as stay-at-home moms who had planned to rejoin the labor force.

She also noted that the roughly 30 percent of people who don’t file federal income taxes would need to in order to receive cash assistance.

Business groups largely reacted positively.

“The scale of the risks is enormous. We are glad that the scale of the proposed response matches it” said David Levine, President of the American Sustainable Business Council.

“But it is likely that further steps will be necessary,” he added.