Congress of the United States
Washington, DC 20515

April 2, 2020

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

The Honorable Jovita Carranza
Administrator
Small Business Administration
409 3rd Street, S.W.
Washington, D.C. 20416

Dear Secretary Mnuchin and Administrator Carranza:

Thank you for your service to our nation during this exceptionally challenging time. In particular, we thank you for the time and energy that you devoted to the crafting of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, historic legislation critical to preserving the nation's millions of small businesses which comprise more than 95 percent of the nation's employing businesses.

We write today regarding a significant problem in the implementation of the Act's small business protections and the impact of the problem on the nation's young businesses, or "startups." Research has repeatedly shown that new businesses account for a disproportionate share of innovation, economic growth, and job creation – and, therefore, are absolutely critical to the nation's ability to weather and recover from the economic blow inflicted by the coronavirus emergency. In 2019 alone, 2.3 million jobs were created across the nation by startups, 98 percent of which have fewer than 100 employees.

The problem stems from the SBA's definition of "small business" in light of the way that many startups in America are financed – through equity investment provided by venture capital firms, which typically make investments in a portfolio of young businesses, understanding that many will fail while a few will survive and thrive. To be eligible for the relief and support provided by the CARES Act – particularly access to the SBA's 7(a) loan program – business must meet the definition of small business, which the SBA defines as having fewer than 500 employees. As part of that definition, the SBA applies an "affiliation rule," requiring companies to include in their employee count all the employees of companies with which they are "affiliated." Because venture capital firms typically invest in a number of young companies simultaneously, the affiliation rule would require venture-backed startups to aggregate the employees of all the unrelated companies in which their investors have equity positions, pushing many beyond the 500-employee threshold.

Without clear guidance enabling startups and other small businesses supported by equity investment to access the 7(a) loan facility, many of these companies will be rendered ineligible causing them to fail. The confusion alone could lead to waves of preventable layoffs. In addition to laying off workers, many startups will have to shut down critical research and development (R&D) projects in fields like bio-research and artificial intelligence, damaging our

country's competitiveness. Layoffs by startups would also have significant downstream economic consequences for service-oriented businesses like restaurants, coffee shops, and bars, who rely on these workers as customers.

With these very real concerns in mind, we urge the SBA to issue the necessary waiver to the "affiliation rule" that is needed to protect thousands of startups across the nation and the employees who depend on their survival.

Again, we thank you for your service to date and trust that you'll swiftly address this important issue.

Sincerely,

Dean Phillips
MEMBER OF CONGRESS

Ro Khanna
MEMBER OF CONGRESS

Terri Sewell
MEMBER OF CONGRESS

Tim Ryan
MEMBER OF CONGRESS

Brian Fitzpatrick
MEMBER OF CONGRESS

Anthony Gonzalez
MEMBER OF CONGRESS

Jerrold Nadler
MEMBER OF CONGRESS

Bradley S. Schneider
MEMBER OF CONGRESS

Henry Cuellar
MEMBER OF CONGRESS

Ted Deutch
MEMBER OF CONGRESS