



## Memorandum

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From: Noel Poyo, Executive Director, NALCAB  
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Re: Recommendations for Responding to the Economic Crisis Resulting from the COVID-19 Pandemic

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The coronavirus pandemic is moving through the US population, requiring an unprecedented public health response that includes shutting down public events and venues, from professional sporting events and concerts to neighborhood restaurants, in order to slow the spread of the virus. The resulting economic slowdown has already been sharp and dramatic. It is clear that this crisis is having an immediate and hard-hitting impact on the hospitality, transportation and service sectors, which disproportionately employ Latinos and low-wage workers, as well as small businesses of all kinds. Supply chain disruptions from the pandemic's impact in China have also reverberated through the US economy. While the full scope of the human tragedy and economic impact are not yet clear, there can be no question that millions of working-class people in the United States will face significant hardship in the coming year.

There is an urgent need for the President and Congress to enact a fiscal stimulus that quickly delivers emergency financial support directly to hard working people who are, or soon will be, negatively impacted by this crisis, including many 1099 workers and self-employed individuals who have experienced a dramatic reduction in their incomes but cannot access unemployment insurance. A fiscal stimulus package must also deliver flexible, patient capital to small businesses and large employers in the worst impacted sectors to support them in recovery.

### **Provide Immediate Direct Payments to Support Low- and Middle-Income Households and Extended Unemployment Insurance**

The large majority of low- and middle-income households in the country are facing, or are soon likely to face, an immediate financial crisis due to the recent rapid economic contraction, whether or not their community is directly impacted by COVID-19. We recommend targeting \$1,500 in direct cash payments to all low- and middle-income households who file tax returns, include ITIN filers. We recommend means testing these payments by using the same methodology as is applied to the Child Tax Credit. Further, we recommend increasing the 2020 earned income tax credit by \$500 in recognition of the fact that low income households, in particular, will have the most difficult time recovering from this economic shock and will benefit enormously by an additional financial boost in early 2021.

It will be critical to balance speed and access in determining the mechanisms for disbursing financial support. 2019 tax filings and unemployment claims, among other sources, may provide reliable information on income for many households, allowing for immediate disbursement. Many households, however, may not receive an immediate payment due to changes in address, 1099 or self-employed status, or dramatic changes in income that are not reflected in available data, among many other potential reasons. A simple, online, accessible, multi-

lingual process must be established for households to claim payments if they do not receive them automatically – potentially through existing unemployment claims processes.

Any authorization of direct payments should include authorization for an additional direct payment of \$750 three months after the initial authorization, if the Treasury Secretary and a majority of the Federal Open Market Committee of the Federal Reserve System agree that the economic crisis warrants additional direct financial support to low- and middle-income households.

Finally, unemployment insurance should be extended for those that are reaching the end of their authorized benefit period for at least the next three months. Further, extensions should continue commensurate with the length of this economic crisis, in a manner similar to process undertaken after the Great Recession.

### **Support Small Business Resilience and Recovery**

Small businesses in heavily impacted sectors are already in crisis. One non-profit CDFI small business lender in the NALCAB Network reported the following to us late last week, “Our servicing team usually receives five requests for deferrals per month. Yesterday alone they fielded over 30 calls requesting deferrals or more information on leniency with payments.” Another small business lender in our Network indicated that they expected a substantial portion of their portfolio to default in April. These were communications from last week, which now feels like a lifetime ago.

The Federal Reserve’s move to provide capital to banks to support ongoing lending activity is positive, however, Latino business owners have limited access capital through regulated banks. Further, bank regulatory structures appropriately limit their ability to take risk, but this also inhibits their ability to deliver capital to small businesses in challenging market conditions. The announcement by the Administration regarding expanding the Economic Injury Disaster Loan Program is also positive, but given the track record of access to SBA loans, this too will have modest impact for Latino small business owners. Latino small business owners have accessed capital at high costs and unfavorable terms from unregulated lenders, especially those that operate online, however, depending on the severity of this economic shock, it is possible that many of these “marketplace” lenders will experience difficulty remaining in business.

Additional authorization and appropriation for emergency direct loans to small businesses through the existing SBA and USDA would be useful, but we must be mindful of historic inability of these agencies to serve the Latino small businesses among other significant segments of the small business market. It is also important to consider whether loans are the correct mechanism for supporting small businesses’ that may be in a financial and operational position that is impossible to reasonably underwrite or project their viability of recovery for quite some time. The Congress should consider providing short term support to small businesses for payroll, benefits or sick leave in the form of grants for those sole purposes, with necessary safe guards to prevent owners from disproportionately paying themselves.

US Treasury certified Community Development Financial Institutions (CDFIs) that are experienced small business lenders are the most important structures for delivering responsible capital that is well tailored to the needs of minority small business owners. There is significant capacity to scale culturally relevant business lending through CDFIs. In some states, there are state programs that do a good job of delivering capital to small businesses. The Congress should re-authorize the US Treasury State Small Business Credit Initiative with two key changes: 1) one quarter of the authorized capital be distributed rapidly by Treasury directly to certified CDFIs with a track record of small business lending or providing liquidity to small business lenders, and; 2) States utilize at least one quarter of the capital they receive under the SSBCI be deployed through CDFI small business lenders.

## **Support Major Employers and Vital Industries in a Financially Prudent Manner**

In order to support macroeconomic stability, which is important for everyone in the US, the stimulus should support major employers in vital industries that have been hard hit by this economic crisis. Similar to the approach taken to the auto industry after the Great Recession, if the federal government determines an industry is vital to the functioning of our economy and has been too hard hit to serve the market after this crisis, the federal government should purchase controlling shares in companies in that industry and sell those shares when the companies have restructured and recovered. In the process, the government should ensure that appropriate policies relating to executive compensation, consumer protection and worker protections are in place.

## **Act to Expand Access to Paid Sick Leave**

Paid sick leave is essential for workers to live stable financial lives and to eliminate perverse incentives for people to come to work sick. Latinos are overrepresented in industries that provide the lowest level of access to paid sick leave. According to a March 2020 Pew Research Center analysis of the US BLS 2019 National Compensation Survey, while 73% of private sector workers have access to paid sick leave, only 64% of retail workers and 58% of construction workers have access to paid sick leave. A 2010 report by the Joint Economic Committee of Congress found that 27% of food service workers and childcare workers had access to paid sick leave. Congress should pass legislation to establish a tax penalty for businesses that fail to provide paid sick leave for all employees, except for the smallest businesses, and provide financial incentives to make it realistic for the smallest businesses to offer paid sick leave.

## **Focus on Predatory Market Activity**

Congress should direct the Consumer Financial Protection Bureau and other relevant regulators to closely monitor and enforce laws prohibiting fraud, usury, wage theft, price gouging in a disaster and other despicable behavior that we are already seeing play out in this chaotic economic crisis.

## **Utilize Hearings and Investigations to Focus on the Behavior of Banks and Philanthropies During this Economic Downturn**

Banks are receiving favored access to capital from the Federal Reserve and philanthropies benefit from non-profit status. Congressional Committees should use their bully pulpit and investigations authority to shine a light on how banks and philanthropies are, or are not, leveraging these benefits to respond to the needs of low- and middle-income households and small businesses.

## **Monitor How the Economic Downturn Exacerbates the Housing Affordability Crisis**

During the Great Recession, after many dubiously structured mortgages failed and the poorly structure mortgage securities market led to a meltdown of the financial system, massive job losses led to another wave of mortgage delinquencies. The second, larger wave of delinquencies represented hard working people who had lost their jobs through no fault of their own and who wanted to pay their mortgage. The same was true for many, many renters who then faced eviction. Depending on the severity of this economic downturn, we need to be vigilant about the potential impact of job losses on housing stability. We learned many hard lessons during the Great Recession that should not be forgotten. Given the housing affordability crisis that already existed, there will certainly be a spike in mortgage delinquencies and late rental payment. It would be a mistake to recreate the rush to foreclosure and eviction that we saw in 2006-2008 and Congress should be prepared to consider neighborhood stabilization and affordable housing investments to address an emerging housing crisis.

Thank you for reaching out to NALCAB for input about how the Congress should be responding to the economic crisis resulting from the COVID-19 pandemic. Please let us know if you need additional information on this and any other issues impacting this nation's Latinos.