



May 27, 2020

To All Members of the U.S. House of Representatives:

On behalf of the National Association of Wholesaler-Distributors (NAW), we are writing to urge you to vote for the Paycheck Protection Program Flexibility Act when it is taken up by the House this week.

NAW is the “national voice of wholesale distribution,” an association comprised of employers of all sizes, and national, regional, state and local line-of-trade associations spanning the \$5.9 trillion wholesale distribution industry that employs almost 6 million workers in the United States. Approximately 40,000 enterprises with almost 400,000 places of businesses in all 50 states and the District of Columbia are affiliated with NAW.

The bill offered by Representatives Dean Phillips and Chip Roy would provide much-needed reform of the Paycheck Protection Program, which is now at risk of becoming unworkable due to the inflexibility of some of its provisions, and the controversial and unending reinterpretations of the statute by the Treasury Department and the Small Business Administration. Unfortunately, a number of the PPP’s provisions do not address the needs or circumstances of the businesses the program was intended to help.

The need for reforms in this essential business lifeline is demonstrated by the SBA’s loan data: The demand for loans in the first phase of this program was intense, with more than 1.6 million loans approved and the fund running out of money in a very short period of time. But there has been a very sharp drop in activity in the second phase of the program, with the number of borrowers slowing and the dollar amount of loans awarded actually declining.

Some of that decline may be attributable to actions of the Treasury and SBA in issuing Frequently Asked Questions effectively changing the loan qualification requirements and threatening legal action against companies that would not be eligible for loans under the modified conditions. But many NAW member companies are reluctant to apply for PPP loans today because the program simply does not work for many businesses.

The PPP Flexibility Act would fix several significant problems with the program. Specifically, and most important to NAW members, are the requirements that for loans to be forgiven they must be expended in 8 weeks, and that 75 percent of a loan must be spent on payroll.

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When the CARES Act was passed, no one expected the economic impact to continue for an extended period, so providing 8 weeks for a loan to be expended was realistic. But today many thousands of businesses remain closed or are operating at far below normal levels because of government shut-down orders and will likely not return to normal operations for many more weeks. The 8-week loan period must be extended so businesses are not saddled with debt the PPP was not intended to impose, and so that companies are able to keep their workers employed – as the PPP was intended. The PPP Flexibility Act would extend that loan period, and extending the 8 weeks to 24 weeks rather than to a shorter period of time could prevent yet another problem arising weeks from now if business activity does not return to normal.

Just as important is the removal of the requirement, imposed by the Treasury Department and SBA and not in the statute, that 75 percent of a forgiven loan must be spent on payroll. While there is no disagreement that the mission of the PPP was to keep American workers employed, a business must remain open in order to keep employees working. An arbitrary mandate as to what percentage of a loan must be spent on payroll completely ignores the reality that not all business models are the same and cookie-cutter, one-size-fits-all solutions will not accomplish the mission of keeping people employed.

The obvious example of this is that businesses located in high-rent locations will have much higher overhead costs than other businesses.

Furthermore, in sales-based industries like wholesale distribution, salesmen and women of necessity make up an often very large share of a wholesaler-distributor's workforce. Commissions and bonuses make up a very large portion of payroll and therefore are a significant part of a PPP maximum loan calculation.

When sales go down, as is the case with the overwhelming majority of NAW's members today, commissions also decrease. As a result, a company may not be able to satisfy the SBA's 75 percent payroll ratio even if that company has retained every employee and not reduced compensation except for the reduction in commissions earned and paid.

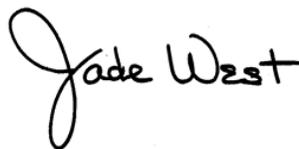
These changes and the others in the Paycheck Protection Program Flexibility Act would significantly improve the PPP and help ensure that it remains an important tool in keeping Americans working as the economy begins to recover.

We urge you to vote for this important bill and will include this vote in our key votes for this session of Congress.

Sincerely,



Dirk Van Dongen
President & CEO



Jade West
Chief Government Relations Officer