

prevent more people from falling into poverty, and help weld the broken pipes of our economy. Let's do it before it's too late" ([July 29](#)).

In contrast, the Bank of Mexico quickly unveiled a series of liquidity measures totaling \$30 billion (3.3% of last year's GDP) in April to "foster an orderly functioning of financial markets, strengthen the credit channels and provide liquidity for the sound development of the financial system." The Bank of Mexico has cut its benchmark rate 225 basis points this year to a 5% target rate (see a [YPFS blog post](#) on the Bank of Mexico's liquidity measures). The Bank of Mexico also holds [swap lines](#) with the US Federal Reserve and US Treasury for \$60 billion and \$9 billion respectively. The peak usage was at [\\$6.6 billion in April and currently about \\$5 billion is outstanding](#).

Other COVID-19 related responses within Mexico include the Mexican Business Council, in collaboration with [IDB Invest](#) – the private-sector arm of the [Inter-American Development Bank](#) – announcing [\\$12 billion in loans a year to SMEs](#).

## Senate Republicans introduce HEALS Act, next round of COVID-19 response

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*Original post [here](#).*

On July 27, Senate Republicans introduced components of the Health, Economic Assistance, Liability Protection, and Schools (HEALS) Act. The HEALS Act would extend and alter many of the programs included in the CARES Act, the third COVID-19 response bill. Some key programs, such as enhanced unemployment insurance (UI) benefits, expired on July 25. The bill also introduces new provisions related to education spending and liability protections.

As of August 3, a single HEALS Act is theoretical: the term instead refers to [ten distinct bills and proposals](#) introduced in the Senate. The two bills that constitute the bulk of the fiscal provisions under the HEALS Act are the American Workers, Families and Employers Assistance Act and the Continuing Small Business Recovery and Paycheck Protection Program Act. Read the full text of these bills [here](#) and [here](#), respectively.

In this post we discuss the major provisions of the HEALS Act and, where appropriate, compare it to provisions of the \$3 trillion [HEROES Act](#) passed by the Democratic-led House of Representatives on May 27.

Summary of provisions, by dollar cost:

- \$300 billion for second round stimulus checks
- \$200 billion in tax breaks for businesses
- \$158 billion for loans to small businesses

- \$110 billion for UI benefits extension
- \$105 billion for schools
- \$111 billion for health related expenses
- \$63 billion for domestic industries
- \$39 billion other
- Total: [\\$1.1 trillion](#)

### Spending for individuals

#### Expanded Unemployment Insurance

The HEALS Act would extend the weekly unemployment bonus through July 2020 implemented by the Federal Pandemic Unemployment Compensation (FPUC) under the CARES Act, but lower it initially from \$600 to \$200.

The FPUC payment supplements state unemployment insurance, which varies widely from state to state. The FPUC was controversial, because workers in some situations could receive more than their previous wage. Under the HEALS Act, the added federal UI benefit would be \$200 a week through September; starting October 5, the funding would change to 70% of previous wages, when combined with state unemployment benefits. In most states, state-level [unemployment benefits](#) provide 45-50% of a worker’s previous wages, so the HEALS Act would add an additional 20-25% to UI benefits.

This plan poses some logistical challenges. Each state has [its own unemployment insurance program](#), and states determine benefits differently. It might be technically challenging -- [if not impossible](#) -- to switch from a flat FPUC benefit that augments standard UI payments to a UI payment that is a percentage benefit before October 5. The Senate bill would give states two months to update their UI programs, but there are wide-spread [doubts](#) that the necessary upgrades can be finished in that time frame.

CARES Act	HEROES Act	HEALS Act
Unemployment “bonus” of flat \$600 a week, on top of state unemployment insurance; expired July 25.	Unemployment “bonus” of flat \$600 a week, on top of state unemployment insurance; extended through July 2020.	Unemployment “bonus” of \$200 a week through October 5; then additional federal unemployment benefit such that total benefits equal 70% of former wages.

#### A second round of Stimulus Checks

The HEALS Act includes a one-time stimulus check that has a nearly identical structure to the stimulus checks under the CARES Act. All single tax filers who have adjusted gross income (AGI) under \$75,000, heads of household with AGI under \$112,000, and joint filers with AGI under \$150,000 will be sent \$1,200 plus \$500 per dependent. Stimulus checks will phase out as AGI approaches \$99,000 for single filers, \$146,500 for heads of household with one dependent, and \$198,000 for joint filers.

Under the CARES Act, dependents over the age of 18 were not included in the stimulus package; the HEALS Act would provide benefits for all dependents, regardless of age. Including dependents over the age of 18 would [expand the pool of dependents](#) by at least 26 million people.

CARES Act	HEROES Act	HEALS Act
One-time stimulus check of \$1,200 per single tax filer with AGI under \$75,000; \$2,400 for head of household with AGI under \$112,000 or joint tax filers with combined AGI of \$150,000; additional \$500 per dependent under 18 (no cap).	One-time stimulus check of \$1,200 per single tax filer with AGI under \$75,000; \$2,400 for head of household with AGI under \$112,000 or joint tax filers with combined AGI of \$150,000; additional \$1,200 per dependent under 18 (up to 3).	One-time stimulus check of \$1,200 per single tax filer with AGI under \$75,000; \$2,400 for head of household with AGI under \$112,000 or joint tax filers with combined AGI of \$150,000; additional \$500 per dependent, regardless of age (no cap).
Family of 5: \$3,900	\$6,000	\$3,900

### Funds to Address other COVID-related expenses

#### State/local funding

The HEALS Act would create the Coronavirus Emergency TANF Fund, an expansion of the pre-existing [Temporary Assistance for Needy Families \(TANF\)](#). The Act would appropriate \$2 billion in grants to qualifying states with significant expenditures on “basic assistance, non-recurrent short-term benefits, and work supports for eligible families.” These funds would also be available to states to update their unemployment insurance systems. The state funding in the HEALS Act is minimal when compared to \$150 billion in direct aid secured by the CARES Act and the [HEROES Act’s](#) proposed \$1 trillion.

CARES Act	HEROES Act	HEALS Act
Established \$150 billion Coronavirus Relief Fund for grants to states/local/tribal governments; \$35 billion to capitalize Municipal Liquidity Facility.	Grants totalling \$915 billion for state/local/tribal governments: including \$500 billion to state governments and \$375 billion to local governments.	Expands Temporary Assistance for Needy Families (TANF), adds \$2 billion in grants to shore up state/local/tribal governments.

### Education

The HEALS Act provides \$100 billion for [education](#), with \$70 billion reserved for K-12 education and \$30 billion for post-secondary education. The funds will be disbursed as grants through the Elementary and Secondary School Emergency Relief Fund and the Higher Education Emergency Relief Fund, both established by the CARES Act.

Of the \$100 billion, one third would be distributed for the two funds established by the CARES Act, while two thirds would be reserved for schools that are reopening in the fall. Specifically, two-thirds of the funds’ total will be exclusively available for grants to schools with at least 50% attendance for 50% of the school year. Distribution to a state will be based on its percentage of student-aged residents that are under the poverty line.

The HEALS Act also includes [changes](#) to student loan repayment. Normally, student borrowers have nine repayment plan options, ranging in maturity length and rate. The Senate bill would reduce these options to two plans: one with a 10-year fixed annual payment; and one wherein students would pay 10% of their discretionary income for 20 years (in the case of undergraduate debt) or 25 years (in the case of graduate school debt) before the remaining balance is forgiven.

CARES Act	HEROES Act	HEALS Act
\$30 billion for <a href="#">education</a> , with \$13 billion to K-12 schools and \$14 billion to post-secondary schools; suspension of student loan repayment through October 2020.	\$100 billion in direct aid for schools; \$10,000 in student loan forgiveness and suspension of loan repayments through October 2021 for those with <a href="#">“greatest need”</a> (approximately 20 million people).	\$100 billion for schools, with two-thirds reserved for schools that re-open in the fall; income-based payment option for student loans.

### Tax credits and deductions

The HEALS Act amends and expands tax credits and deductibles available to businesses that retain employees. It amends the CARES Act Employee Retention Credit to offer a deduction to businesses equal to 65% of a retained employee’s wages, up from 50%, and increases the

maximum deduction from \$10,000 to \$30,000 per employee. The bill also introduces a new Safe and Healthy Workplace tax credit. This tax credit gives businesses a deduction equal to 50% of the costs of employee protection and workplace reconfiguration expenses, due to new COVID-19 regulations.

### Childcare

The HEALS Act provides \$15 billion for childcare, \$5 billion more than the funding included in the HEROES Act that was passed by the Democrat-controlled House of Representatives on May 15. Read the full text of the proposal [here](#).

### Liability Protections

Senator Mitch McConnell has [repeatedly said](#) that liability protections will be in any relief deal that passes the Senate. Liability protections appear in the HEALS Act via the Safeguarding America's Frontline Employees to Offer Work Opportunities Required to Kickstart the Economy Act, abbreviated the SAFE TO WORK Act. The Act would protect healthcare providers, businesses, volunteers, local governments, and administrators from liabilities associated with COVID-19 from December 2019 through October 2024. The [first wave of lawsuits](#) associated with the disease has just begun. [Some argue](#) that the Act would give employers a blanket waiver to skirt protections for workers' health. The CARES Act did not limit legal liabilities. It did [include a provision](#) requiring the Occupational Safety and Health Administration to draft new regulations to protect employees from COVID-19. The HEROES Act does not contain provisions limiting liability for employers, businesses, or schools.

### Changes to the Paycheck Protection Program (PPP) and additional small business programs

The [Continuing Small Business Recovery and Paycheck Protection Program Act](#) (PPP) thoroughly revamps the PPP's scope to target the hardest-hit businesses that have experienced revenue losses; disqualifies publicly traded companies and other types of firms that the [original legislation](#) had included; and eases the loan forgiveness process. These changes are headlined by a second round of PPP loans to businesses with fewer than 300 employees, a lower general loan cap of \$2 million, and an expansion of eligible uses for funds that do not jeopardize loan forgiveness.

Much of the language is taken up with clarifying the PPP's intent by patching perceived holes in the program, which has already seen successive legislative and administrative changes. For example, the bill explicitly disqualifies several business structures and industries to address concerns raised when publicly traded companies and lobbying firms were awarded PPP loans.

Finally, the proposed legislation clears paths for loan forgiveness. The CARES Act mandates that borrowers submit evidence to support their loan application such as payroll tax filings, mortgage statements, and utility bills, along with a certification that such evidence is true and correct. The proposed legislation does away with the submission of evidence, significantly lowering the hurdles to both borrower and lender compliance. For loans smaller than \$150,000, which

comprise [87%](#) of approved PPP loans as of July 24 (6), borrowers must attest that they “made a good faith effort to comply with the [forgiveness] requirements” and maintain records relevant to compliance efforts. For loans between \$150,000 and \$2 million, the process is similar, but the Act specifies supporting documents that must be maintained.

By paring borrower eligibility down to only those hardest hit, this bill starts to wean small businesses off a lending program that seems ever more likely to become a grant program. The proposal also introduces two new long-term lending programs -- Recovery Sector Loans and the Small Business and Domestic Production Recovery Investment Facility -- which we summarize at the end of this section. These programs are not designed to deliver short-term relief, but rather to facilitate investments. Taken together, the PPP eligibility adjustments and new programs point toward recovery and away from a relief mindset.

Current program	HEROES Act	HEALS Act
\$659 billion for PPP	No mention of PPP	\$749 billion for PPP
	\$10 billion in small business grants	\$10 billion in 15-year loans to small business investment companies
		\$100 billion in 20-year “recovery sector loans” to hard-hit businesses, manufacturers, seasonal employers, and firms in small business low-income tracts

### Targeting the hardest-hit businesses

Congress [extended](#) the PPP’s application period from its original June 30 deadline to August 8, with nearly \$140 billion left in appropriated funds. But the program has seen much less uptake than during its initial run. Rather than expand eligibility, the Senate bill addresses this funding surplus by narrowing its general criteria in two ways. First, the bill allows a second loan to PPP recipients with fewer than 300 employees. Second, businesses must have suffered revenue losses of at least 50%, defined as the change in gross receipts in 2020 from a period in 2019 when that business was open.

These “second draw” loans are limited to the lesser of 2.5 times the monthly value of an applicant’s payroll and \$2 million. This \$2 million cap would also extend to first loans. Finally, the bill further targets small borrowers by requiring at least \$25 billion of second-draw PPP loans to go to businesses with fewer than 10 employees.

A May report from the SBA Inspector General [found](#) that guidance to lenders prioritizing rural and underserved markets had not been issued by the SBA. As this guidance was specified by

CARES Act Section 1102(a)(36)(P)(iv), the report raised concern that the program might not be operating in a manner consistent with Congressional intent. The SBA did [issue](#) such guidance at a later date. The proposed bill does not alter CARES Act language, but would complement it by setting aside \$10 billion for small lenders and community financial institutions. Small lenders, often located in rural markets, delivered PPP loans [faster](#) than large lenders during the program's initial round and there is [some evidence](#) that rural areas were well represented among loan recipients. Data released by the SBA also suggest that community development financial institutions lent to underserved markets -- which the CARES Act defines as women, minorities, and veterans -- at somewhat higher rates than other lenders.

The bill includes \$90 billion of entirely new appropriations for the Paycheck Protection Program's second draw loans. It also combines the existing PPP pool with money already available for [Economic Injury Disaster Loans](#). This consolidation aims to give the programs more flexibility in effectively meeting demand from applicants. The proposal would also extend the application period until the end of the year; the application period is now set to close on August 8, 2020.

Disqualifying specific types of recipients that had raised controversy

The PPP came under fire from [oversight bodies](#) and [media](#) for awarding loans to publicly traded companies, lobbying firms, and insurance agencies. Section 106 of the new bill significantly redefines PPP eligibility, explicitly disqualifying those types of organizations, as well as think tanks, banks, and other lenders.

Media coverage also [focused](#) on loans to businesses owned in part or whole by members of Congress and their family members. Normally, SBA reviews small business loans for any conflicts of interest, but that practice [appears](#) to have been waived by the SBA. While the PPP lends through thousands of retail banks, constructing a buffer between the executive branch and lending, a previous YPFS blogpost [argued](#) that "a blanket waiver should raise concern." Section 117 of the Republican proposal requires members of cabinet and Congress to disclose controlling interests in companies when applying for PPP loans, creating a middle ground between case-by-case review and the blanket waiver.

Finally, the bill wades into the [debate](#) over economic decoupling with China. It introduces novel language that excludes businesses with significant stakes in entities located in the mainland or Hong Kong, and disqualifies those with board members who reside in China. While the executive branch has [led](#) federal efforts to distance US interests from Chinese production, in the last week Senate Republicans have [introduced several bills](#) that would limit American dollars from flowing into the People's Republic. Though inconsequential (few businesses small enough to be eligible for PPP are likely to maintain close ties with China), were this language to be adopted it would be the first mention of China in any of the United States' coronavirus response laws.

Easing the loan forgiveness process

The Senate proposal would also ease the loan forgiveness process. For loans under \$150,000, which have constituted the vast majority of PPP loans by number -- though not by value -- borrowers would be assumed to have made a good-faith effort at adhering to loan forgiveness terms if they attest to, and keep “relevant records” of, such efforts for three years. Loans between \$150,000 and \$2 million require that lenders review and attest to the completion of the loan forgiveness application. Borrowers of these larger loans must also store “relevant schedules, worksheets, and supporting documentation” for three years.

All proposed and enacted legislation related to the PPP has asserted the right of the SBA to audit or review any loan it has made, and this proposal allows the SBA to retroactively modify loan or forgiveness amounts when it finds noncompliance. However, the relaxation of loan forgiveness requirements and compliance is likely to result in most loans becoming grants with the filing of forgiveness applications. Since the [enactment](#) of the Paycheck Protection Program Flexibility Act on June 5, the PPP has allowed loan forgiveness to borrowers that used at least 60% of the loan for payroll expenses, with the rest allowed for covered expenses such as rent, insurance, and public health compliance.

The Senate proposal also clarifies protections for eligible lenders. Despite 100% participation by the SBA, some lenders have [remained](#) skittish about lending and forgiveness due to fears over potential liability and compliance. The Senate proposal codifies SBA guidance on this matter by assuring safe harbor protections to lenders who receive attestations or certifications from applicants.

### **Other provisions**

The bill also introduces two new programs which businesses may apply for as an alternative to the PPP: Recovery Sector Loans and the Small Business and Domestic Production Recovery Investment Facility. These programs are significant in size and scope, costing the Treasury up to \$67.7 billion if enacted. They focus not on short-term relief, but long-term changes to businesses, with long loan maturities, allowances for proceeds to be spent on capital purchases, and a focus on hard-hit businesses and domestic manufacturing. However, these proposals are wholly novel and have no corollaries in the HEROES Act.

The proposal authorizes \$100 billion for recovery sector loans up to \$10 million. These loans are attached to narrower eligibility requirements than the PPP: borrowers must have lost revenues in excess of 50% from 2019, be seasonal businesses (defined in [Subsection 112\(38\)\(A\)\(iii\)](#)), or do significant business inside a new statistical creation, the small business low-income census tract (defined in [Subsection 112\(38\)\(A\)\(v\)](#)). Rather than provide quick relief, these loans can be used for Small Business Act 7(a) covered expenses in addition to fixed capital improvements, upgrades, and debt refinancing. These loans carry 20-year maturities at the Secured Overnight Financing Rate plus 3% and do not include forgiveness provisions.

The proposal would also appropriate \$10 billion for a lending facility to small business investment companies. In this model, the SBA would buy 15-year bonds from investment



companies at an interest rate not exceeding 2%. The proposal would cap loan amounts at \$200 million. Proceeds from the sale would then fund investments into manufacturing supply chain resiliency, small business low-income census tracts, and businesses that lost at least 50% of revenue between 2019 and 2020. The bonds, however, carry some characteristics of equity holdings, notably a condition ensuring some amount of profit flows back to SBA should an investment be successful.

## Conclusions

The bills put forward by Senate Republicans alter and extend the provisions of the CARES Act programs, enacted on March 27 but in some cases revised by further legislation.

These provisions seek to accomplish three goals. First, direct payments to individuals would provide [needed](#) support to the unemployed and stimulus for the [battered](#) American economy. Second, the proposal would transition recovery programs to targeting longer-term policies as schools and businesses seek to reopen while upgrading their public health practices. Third, the bills seek to fix problems discovered during the implementation of CARES Act programs. Within the context of the other eight bills that together constitute the GOP spending proposal, it is clear that both Republican Senators and the White House administration are prioritizing re-opening businesses and schools amid [broad disagreement](#) about the fate of fall education.

The HEALS Act will have to be negotiated against the \$3 trillion HEROES Act. (This [YPFS blog](#) discusses the HEROES Act in more detail.) The two acts both include a second-round of stimulus payments, funding for childcare, and enhanced unemployment payments. However, the HEROES Act substantially expands the amount of money available for each of these purposes.

Currently, there is no consensus on when a bill could pass both chambers. Congress is set to adjourn on August 7 for a month-long recess.