

Rewritten HEROES Act lops \$800 million off first proposal, but unlikely to proceed

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Original post [here](#).

On October 1, the Democrat-led House [passed](#) an updated version of the Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act, with a headline spending level of \$2.2 trillion.

The 2,154-page bill would allocate significantly less than the previous HEROES Act, which the House [passed](#) in May and which clocked in at \$3 trillion. But, a wide gap remains between the Democrats' bill and the \$1.1 trillion Health, Economic Assistance, Liability Protection, and Schools (HEALS) Act that Senate Republicans [offered](#) on July 27 and which the Senate has not voted on. The White House confirmed last week that Treasury Secretary Steven Mnuchin had brought a [\\$1.62 trillion](#) offer to talks with Speaker Pelosi, but the two have yet to close the gap and reach an agreement.

Compared to the May edition of the HEROES Act, this proposal [reduces](#) grants to state, municipal, territorial, and tribal governments by \$479 billion, cuts \$1,200 stimulus payments for dependents to \$500, and removes the proposed \$190 billion fund for hazard pay to essential workers. However, the bill is still about \$1 trillion larger than a revised Senate bill [nearly agreed upon in August](#), and--as written--is unlikely to make it through the Senate.

Each of these proposals attempts to correct and supplement the Coronavirus Aid, Relief, and Economic Security (CARES) Act, passed on March 27. The CARES Act delivered \$2 trillion to individuals, small businesses, municipalities, and critical industries such as commercial airlines. It also implemented a foreclosure moratorium and payment forbearance on mortgages issued by federally owned lenders, which, as of the third quarter of 2019, [held](#) 36% of outstanding mortgage debt on one- to four-family residences. Since the CARES Act, the US economy has proceeded in fits and starts as states struggle to contain the coronavirus.

Table 1. Comparison between HEALS and HEROES Acts.

Category	HEALS Act	HEROES Act (September)
Individuals	<ul style="list-style-type: none">- Second round of stimulus checks with benefits for dependents regardless of age- Federal Pandemic Unemployment Compensation	<ul style="list-style-type: none">- Second round of stimulus checks with benefits for dependents regardless of age- FPUC set at \$600, as in the CARES Act- All federal unemployment insurance enhancements extended through January 31, 2020

	(FPUC) set at \$200 until October 5, then 70% of former wages	- Increases SNAP benefits (food stamps) by 15% and removes work requirements (\$10 billion)
Small businesses	<ul style="list-style-type: none"> - Expands grants to low-income families - New Paycheck Protection Plan (PPP) appropriation of \$90 billion - Second Draw PPP loans with refined eligibility and benefits 	<ul style="list-style-type: none"> - New PPP appropriation of \$75 billion - Priority PPP loans with refined eligibility and benefits - \$120 billion Restaurant Revitalization Fund
State, territorial, and municipal finance	<ul style="list-style-type: none"> - Adds \$2 billion in grants to all jurisdictions 	<ul style="list-style-type: none"> - \$436 billion for grants to all jurisdictions - MLF significantly expanded
Agriculture & nutrition	<ul style="list-style-type: none"> - \$20 billion in grants to producers - No eviction or foreclosure moratoria 	<ul style="list-style-type: none"> - n/a
Housing	<ul style="list-style-type: none"> - \$3.2 billion for housing assistance 	<ul style="list-style-type: none"> - Extended and expanded eviction and foreclosure moratoria - About \$76 billion in housing assistance
Credit reporting & debt collection	<ul style="list-style-type: none"> - n/a 	<ul style="list-style-type: none"> - Prohibits negative credit reporting and related measures, and consumer debt collection, during COVID-19 pandemic and 120 days, and in some cases other disasters
Airlines	<ul style="list-style-type: none"> - n/a 	<ul style="list-style-type: none"> - \$28.3 billion extension of the Payroll Support Program

Source: HEROES Act Division A

Individuals

Were Congress to pass the HEROES bill, it would extend a number of popular programs it established in its third wave of federal relief, the Coronavirus Aid, Relief, and Economic Security (CARES) Act, in March.

The revised HEROES bill includes a second round of special tax rebates, popularly branded as “stimulus checks.” As in the CARES Act, these base payments would amount to \$1,200 for individuals or \$2,400 for joint tax filers. The HEROES Act provisions differ from those in the

CARES Act in two significant ways: they include all dependents, though at a reduced benefit from the Democrats' May proposal; and they shield payments from all garnishments.

Some criticized the first round of direct payments for only issuing the \$500 benefit for dependents younger than 17. House Democrats integrated those criticisms into its May HEROES Act proposal, which would have included older dependents while raising the benefit to \$1,200. The revised HEROES Act would still include dependents 17 or older, but leave the benefit at \$500, matching that of the HEALS Act. Like the first-round payments under the CARES Act, the base amount and the \$500 benefits would be reduced in steps when Adjusted Gross Income tops \$75,000 for single filers or \$150,000 for joint filers.

The revised HEROES bill also protects stimulus-check recipients from garnishment under the Treasury Offset Program (TOP). In normal times, the TOP identifies various debts that taxpayers owe, and deducts those amounts from their tax refunds. The CARES Act exempted stimulus checks from all TOP deductions except child-support payments. However, this requirement proved difficult to execute: about 50,000 who filed jointly received payments lower than the base \$1,200 because their spouse had an outstanding child-support debt. The first round of payments under the CARES Act also allowed other garnishment. For example, a bank could offset amounts owed to it against payments direct-deposited into taxpayers' accounts. The revised HEROES Act would protect stimulus-check payments "from any form of transfer, assignment, execution, levy, attachment, garnishment, legal process, bankruptcy or insolvency law, and any other means of capture prohibited for payments made under Title II of the Social Security Act" (p. 37).

The revised HEROES bill would strengthen the Earned Income Tax Credit (EITC) for taxpayers without dependent children. The bill adjusts the eligibility formula for the credit and doubles the rate of the credit from 7.65% to 15.3% of annual income. The House Appropriations Committee summary of the HEROES Act said that, taken together, these provisions would increase the maximum credit for a single childless taxpayer from \$539 to \$1,487 (p. 38).

Division I of the revised HEROES bill would extend the various federal enhancements to unemployment insurance until January 31, 2021, a month past the end-of-year sunsets specified by earlier Congressional proposals as well as the CARES Act. Economists credited these benefits, along with the April stimulus checks, for keeping Americans afloat during the pandemic. The programs which comprise these enhancements are:

- Federal Pandemic Unemployment Compensation (FPUC), which provides a weekly benefit of \$600 on top of states' existing weekly benefits;
- Pandemic Unemployment Assistance (PUA), which expands eligibility for federal benefits to gig workers and other self-employed workers;
- Pandemic Emergency Unemployment Compensation (PEUC), which extends federal benefits by 13 weeks past normal state and federal benefit end dates.

Division I would also create a new program, the Pandemic Emergency Unemployment Extension Compensation, which would extend federal unemployment benefits by another 13 weeks to those who exhausted state or federal benefits. This, too, would expire on January 31, 2020.

Under the revised HEROES bill, Short Time Compensation (STC) programs, which a few states have established to pay employers for keeping employees with reduced hours, would also continue to receive funding through January 31, 2021. Some states had established STC programs prior to the pandemic, while others rolled out temporary programs. The revised HEROES Act would extend the full federal funding that the CARES Act provided for permanent STC programs, and half of the funding for temporary programs, until January 31, 2020.

Finally, the bill would boost the federal government's food stamp benefit, Supplemental Nutrition Assistance Program (SNAP), by 15%, and increase the minimum monthly payment from \$16 to \$30 until September 30, 2021. It would exempt those receiving SNAP payments from mandatory work requirements for one year; the HEROES Act passed in May had a two-year exemption. The bill would appropriate \$10 billion to the SNAP program to cover these benefits. Additionally, Pandemic Unemployment Compensation would not be regarded as income as it relates to SNAP benefit calculations. For comparison, the proposed HEALS Act would not increase SNAP benefits but would support the Temporary Assistance for Needy Families (TANF) program, which [supplements](#) the incomes of 1.1 million families.

Small Businesses

To small businesses, the HEROES Act looks substantially like the Republican HEALS Act. Both proposals would extend the Paycheck Protection Program (PPP), the \$525 billion behemoth that issued 5.2 million loans between April and August 8. Both formulations would exclude publicly traded companies and nonprofits that engage in lobbying activities from securing loans. Both would concentrate eligibility in companies that have suffered year-on-year losses in revenue greater than 25% and that employ fewer than 200 employees. Both would also limit maximum loan sizes to \$2 million. On other small business matters, the Democratic proposal agrees substantially with that of the Republicans in its treatments of the Emergency Injury Disaster Loans (EIDLs) and additional appropriations for Small Business Investment Companies (SBICs).

The revised HEROES bill would add \$75 billion in appropriations to a revived PPP and introduce lending quotas to certain types of recipients and lenders (detailed in Table 2). The PPP finished with more than \$133 billion remaining of the \$649 billion Congress made available after [expanding](#) its budget.

To address these unused funds, the revised HEROES Act would also allow businesses that have already received PPP funds to apply for a second loan. These Priority PPP (P4) loans would concentrate aid in smaller recipients. Their maximum size would be \$2 million; the Small Business Administration (SBA) [reported](#) that loans exceeding \$2 million and \$10 million composed just 0.6% of PPP loans, but 20.0% of funds (p. 6). The proposal would also narrow

eligibility to firms with 200 or fewer employees, and to those that have suffered year-on-year revenue declines larger than 25%. This lost revenue threshold is less than the HEALS Act's proposed 50% threshold for [Second-Draw PPP Loans](#).

Table 2. Revised HEROES Act quotas for PPP funding.

Quota	Borrower or lender requirements
At least 10% of remaining CARES Act and future HEROES Act funding	Borrowers must have 10 or fewer employees, sole proprietors, and loans less than \$250,000 to businesses in low- or moderate-income areas
Up to 30% of remaining CARES Act and future HEROES Act funding	Borrower must be non-profit organization, and is prohibited from lobbying activities
25% of remaining funding up to \$15 billion	Lender must be Community Development Financial Institution (CDFI), Community Development Corporations (CDC), or Minority Depository Institution (MDI)

When Congress passed the CARES Act on March 27, it left the SBA with discretion in determining how to forgive loans. The SBA has changed its forgiveness guidance several times. The Democrats' proposal would address forgiveness with an approach similar to that of the Republicans. Forgiveness of smaller loans would rely on borrower self-certifications, while larger loans would require more pieces of evidence to establish compliance with PPP regulations; both would be subject to SBA audits, although a lack of documentation would likely constrain the capacities of federal auditors.

Last in small-business provisions, the revised HEROES Act would make significant changes to outstanding Economic Injury Disaster Loans (EIDLs). For non-COVID EIDLs, such as those made before February 15 or those extended to businesses harmed by the 2020 hurricane season, the SBA would cover the interest and principal payments for a 12-month period beginning at the borrower's next due payment (p. 625). For COVID-related EIDLs, the proposal would allow borrowers to defer payments for up to four years and reduce interest rates.

State, municipal, territorial, and tribal finance

The HEROES Act revision makes its most significant cuts in state and municipal finances, an area which a Brookings Institution paper [projects](#) will encounter enormous shortfalls in the next few fiscal years. The first version of the HEROES Act allocated \$915 billion to states, territories, and municipalities, and allowed funds to compensate for lost revenues as well as new expenses. City administrators [took](#) issue with the CARES Act's \$150 billion Coronavirus Relief Fund since it did not allow for funds to cover foregone revenues such as sales tax.

This revision would handle fiscal shortfalls in three ways. First, it appropriates \$436 billion in grants to relief funds, cutting \$479 billion from the bill passed in May. State, municipal, territorial, and tribal governments can draw from these funds to plug revenue gaps and finance unforeseen emergency and public health expenditures. Second, the proposal expands eligibility for the Municipal Lending Facility that the Federal Reserve and Treasury established under the CARES Act. Third, the bill includes funding for a number of infrastructure programs that would traditionally be the responsibility of states and municipalities, such as a proposal for \$2.6 billion in competitive grants to Rural Electrification Act electric and telecom borrowers to continue providing utility services to rural households.

The revised HEROES Act would create two new Coronavirus Relief Funds that transfer monies to states and localities. The House Appropriations Committee [provides](#) a succinct breakdown of how such monies would be allocated:

- States and the District of Columbia - \$238 billion based on a state's share of unemployed workers
- Local governments - \$179 billion, evenly divided between municipalities and counties
- \$89.5 billion to municipalities using a modified CDBG [Community Development Block Grant] formula;
- \$62.65 billion for entitlement municipalities (generally defined as those with populations of at least 50,000);
- \$26.85 billion for non-entitlement municipalities (generally defined as those with populations of less than 50,000). These funds will be awarded to states, which must make awards to non-entitlement cities based solely on population within 30 days of receipt;
- \$89.5 billion to counties based on population.

Other territories of the United States collectively would receive \$9.5 billion, as would tribal governments.

The revised HEROES bill would also expand the [Municipal Lending Facility](#) (MLF), which the Federal Reserve created in April to purchase loans directly from states and municipalities. The Federal Reserve Bank of New York, which administers the program, has expanded the eligibility criteria for the program multiple times, but has only [purchased](#) the debts of two issuers. The revised HEROES bill would widen eligibility to all US territories and to any political subdivision with a population greater than 50,000. It would also address the broadest critique of the MLF--that it [lends](#) to municipalities at a penalty rate against equally creditworthy companies--by setting the interest rate at which states borrow equal to the Federal funds rate. Last, the proposal directs the Federal Reserve to purchase debt with maturities of up to 10 years, compared to the [current maximum maturity](#) of 36 months.

Agriculture and Nutrition

Division N of the revised HEROES Act would provide significant assistance to agricultural producers. The bill would allocate:

- \$1.5 billion to assist contract producers of poultry and livestock that suffered from a decline in revenue as a result of COVID-19 (this was not included in the previous HEROES Act);
- \$500 million in direct payments to dairy producers for donations of dairy products to nonprofit organizations such as food banks (the same level of funding as the previous bill);
- \$500 million in recourse loans from the USDA to purchase dairy processors, packagers, and merchandizers (the same level of funding as the previous bill);
- \$500 million in grants to support specialty crop farmers (compared to \$100 million in the previous bill);
- \$350 million in assistance to local farmers and farmers markets (compared to \$50 million in the previous bill),
- \$84 million to support existing farm stress programs operated by state departments of agriculture (compared to \$28 million in the previous bill).

Housing

The revised HEROES Act would allocate \$50 billion for emergency rental assistance grants under the Emergency Solutions Grants Program, a reduction from the previous HEROES Act allocation of \$100 billion. These funds would provide short- or medium-term support to individuals at risk of homelessness. The revised HEROES Act would mandate that indigenous tribes and tribally designated housing entities receive two percent of the funds (\$1 billion), while the Virgin Islands, Guam, American Samoa, and the Northern Mariana Islands would be allocated 0.3% (\$150 million).

The HEROES Act would establish the Homeowner Assistance Fund, which would provide \$21 billion in assistance to homeowners in order to avoid defaults, foreclosures, and displacements. This is a reduction in funding from the initial \$75 billion allocation in the previous HEROES Act. Each state must receive at least \$80 million according to a provision supporting smaller states. Responsibility for distributing funds would lie with state housing finance agencies, which would submit assistance plans to the Treasury for approval prior to disbursement. At least 60% of funds provided to states would go to homeowners with incomes equal or less than 80% of the area median income.

The revised HEROES Act would eliminate the \$3 billion for the Housing Choice Voucher Program, \$2 billion for the public housing operations fund, \$309 million for rural rental

assistance, and \$100 million for housing counseling services that the initial HEROES Act included.

The revised HEROES Act would expand the eviction and foreclosure moratoria of the CARES Act. While only federally owned or -backed properties were eligible under the CARES Act, the revised HEROES Act would protect all mortgage holders and renters. The bill proposes a twelve-month eviction moratorium on all properties; that would extend past the current Centers for Disease Control eviction moratorium, which expires December 31, 2020. Additionally, the revised HEROES Act contains a six-month foreclosure moratorium for all properties. This bill further states that repossession of personal property used as a dwelling, such as a motor vehicle, is not permitted for six months as well.

Homeowners would be eligible for up to a 12-month forbearance period on their mortgage payments. While homeowners still typically need to request said forbearance, the revised HEROES Act proposes that homeowners who have become 60 days delinquent since the COVID-19 pandemic automatically would receive a 60-day forbearance with two potential extensions of 120 days. The HEROES Act also would mandate that servicers provide homeowners with loan repayment options at the end of a forbearance period rather than require a lump-sum payment, which was not addressed in the CARES Act.

While the CARES Act contained several protections pertaining to homeowners and tenants, it did not provide support to mortgage servicers, or Fannie Mae and Freddie Mac (the government-sponsored enterprises, or GSEs). Servicers are currently required to advance four months of payments to the GSEs for mortgages that are in forbearance, which could potentially cause liquidity problems. The revised HEROES Act would require the Federal Reserve to specifically ensure that mortgage servicers are able to participate in the Main Street Lending Program, which was created by Section 4003 of the CARES Act. However, funds obtained from this facility would require servicers to demonstrate that they are properly informing consumers of their rights to payment forbearance, which was not previously required. Additionally, the revised HEROES Act would mandate that the GSEs cannot reject the purchase of single-family mortgage loans simply due to the use of forbearance as a result of COVID-19.

The bill would authorize \$500 million in funding for senior and disabled resident communities. Of those funds, \$200 million would go toward rental assistance and hiring additional staff, as well as providing personal protective equipment. The remaining \$300 million would be disbursed as grants to provide service coordinators with the proper funding to respond to and prevent further COVID-19 outbreaks. This overall allocation of funds is consistent with the prior HEROES Act.

The revised HEROES Act would allocate \$5 billion for the Emergency Solutions Grant program, which provides assistance for individuals experiencing homelessness. The funds could be used on infectious disease training, hazard pay for staff working directly to prevent the spread of COVID-19 and providing a hotel or motel voucher for a homeless individual or family. The original HEROES Act would have provided \$11.5 billion for this assistance.

Credit Reporting and Debt Collection

The revised HEROES Act would suspend negative credit reporting and consumer debt collection during the COVID-19 pandemic and the 120 days following the end of the state of emergency. Additionally, credit agencies would not be allowed to implement any new statistical models that lower the credit scores of existing consumers. Additionally, the bill would permanently ban all medical debt arising from COVID-19 from being included in credit reports. Since the moratorium on consumer debt collection will likely cause liquidity problems for debt collectors, the HEROES Act would require the Federal Reserve to establish a credit facility for the collectors to obtain long-term, low-cost loans that do not need to be repaid until after the moratorium expires.

The revised HEROES Act (Title V, Division O) extends further student loan forbearance provisions to private student loan borrowers until February 2021. Additionally, the Treasury Department would receive \$5 billion to forgive up to \$10,000 in student loan debt for economically distressed private student loan borrowers, which is less than the allocation of \$45 billion in the initial HEROES Act.

Lending Institutions

The revised HEROES Act (Title VI, Division O) would require the Federal Reserve to adjust requirements in the Main Street Lending Program (MSLP). The Fed did not make the program available to nonprofit borrowers until [September 4](#), months after the initial announcement. The revised HEROES Act would require the Federal Reserve to immediately provide a low-cost loan option specifically tailored for nonprofit borrowers, with the option to defer repayment without capitalization of interest. There would also be a loan option for small businesses, small nonprofits, and small public universities that would not have a minimum loan size, rather than the current \$250,000 floor. Additionally, this Title would extend the maturity of loans made under the MSLP from five years to no less than seven.

The revised HEROES Act would codify the Minority Business Development Agency (MBDA) into an independent federal organization, instead of under the Department of Commerce. The bill would also allocate \$3 billion to the MBDA to provide grants to minority-owned businesses. The funds would target businesses that were unable to participate in PPP or that operate in low-income areas. The bill would allow the Secretary of Commerce, or the MBDA if it is codified into an independent organization, significant leeway in deciding how exactly to distribute the funds and to whom. This was not included in the initial HEROES Act.

The proposed bill also dedicates significant funds to community financial institutions. The revised HEROES Act would require the Treasury Department to use \$13 billion to create the Neighborhood Capital Investment Program, which would provide investments to minority depository institutions (MDIs) and community development financial institutions (CDFIs). These funds would come with restrictions on predatory lending, executive compensation, and

share buybacks. The HEROES Act would also allocate \$2 billion to the Community Development Institutions Fund, to increase investments in minority communities.

Restaurants and Airlines

The revised HEROES Act would provide \$120 billion to the Restaurant Revitalization Fund, a new fund that would distribute grants to non-chain restaurants with less than 20 locations. These grants would target payroll costs, rent, mortgage obligations, utilities, and other expenses. Grants would be calculated by the difference in revenues during each calendar quarter in 2020 and 2019, as well as additional payments to account for paid sick leave. If a grant is provided based on estimated income that turns out to be less than actual income, then that amount of the difference would be converted into a loan with an interest rate of one percent and a maturity date of 10 years. The same loan conditions would apply for any funds that go unused by a restaurant. This program was not included in the previous HEROES Act.

The revised HEROES Act would extend the Payroll Support Program for a total of \$28.3 billion. This would directly benefit air carriers (\$25 billion), cargo air carriers (\$300 million) and airline contractors (\$3 billion). These funds could be used by companies to continue paying wages and salaries. As a condition of receiving these funds, companies would commit not to undertake involuntary furloughs of staff or cut salaries. They would also face limits on executive compensation until March 31, 2021. In most cases, applicants for HEROES Act funds would receive the same amount as they would under the CARES Act. Additionally, the HEROES Act proposes \$13.5 billion of grants-in-aid to airports. At least 25% of the funds provided to an airport must be allocated to airport restaurants and retailers. Aid at this level was not included in the initial HEROES Act.

The recent negotiations between Secretary Mnuchin and Speaker Pelosi come at a time when the recovery appears to be slowing. [Several major airlines](#) have announced plans to furlough tens of thousands of workers and [unemployment claims were up slightly](#) in August. Although many legislators disagree, Mnuchin and notably Federal Reserve Chair Jerome H. Powell, have consistently argued that [more stimulus is needed](#).