



ANGEL CAPITAL ASSOCIATION

March 29, 2020

The Honorable Steven Mnuchin
Secretary
U.S. 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:

The Angel Capital Association (ACA) would like to thank you for your support of U.S. small businesses and their workers, especially during this challenging time. ACA is the leading professional association supporting the success of accredited angel investors in high-growth and early-stage ventures. Our 14,000 members are among the angel investors that invest an estimated \$25 billion in 70,000¹ early-stage investments every year, with companies located in every state in the country. Our comments today are in support of both angel investors and the nation's startup entrepreneurs, those who create nearly all net new jobs in the country² and many of the innovations that improve the quality of life throughout the world.

We respectfully urge you to clarify that small businesses with equity investors will not be excluded from the 7(a) loan program under the *Coronavirus Aid, Relief, and Economic Security (CARES) Act*. Application of the Small Business Administration's (SBA) "Affiliation Rules" to these companies is likely to create confusion and delays in administering the program, and exclude many startups that are trying to survive the economic crisis.

The CARES Act takes many positive steps forward to provide relief to the U.S. economy. However, the "Affiliation Rules" will prevent many small companies with equity investment — as is the case with most startups — from qualifying for the emergency relief provided by the CARES Act to companies with less than 500 employees, as well as those who qualify as small business concerns, or those who already have an explicit waiver.

These rules would force these companies to aggregate the employees of all of the unrelated companies in which their investors are affiliated and count them in their employee count,

¹ Center for Venture Research, University of New Hampshire, <https://paulcollege.unh.edu/center-venture-research/research>

² John Haltiwanger, Ron Jarmin, and Javier Miranda, [Jobs Created from Business Startups in the United States](#), 2008

pushing many above the 500-employee threshold. Angel investors often hold 15-20 startup companies in their portfolios. Under the current affiliation rules, all of these firms would be aggregated, pushing the total number of employees over the 500 mark in many instances, even though each startup is a separate entity. The current affiliation exemption in the CARE Act does not address this.

Without clear guidance enabling startups and small businesses supported by equity investment to access the loan facility, many of these companies may be rendered ineligible. The confusion alone could lead to waves of preventable layoffs. These layoffs will also have downstream economic consequences for service-oriented businesses like restaurants, coffee shops, and bars, who rely on these workers as customers.

In addition to laying off workers, startups will have to shut down critical research and development (R&D) projects in fields like bio-research and artificial intelligence, setting back our country's competitiveness. Bottom line: not providing this critical support to startups now will cause both short-term pain and long-term consequences that linger for years.

In 2019 alone, 2.27 million jobs were created in the U.S. by startups across our nation. According to the job site Indeed, 98 percent of firms have fewer than 100 employees and between small and medium sized companies, they jointly employ 55 percent of employees. When implementing the CARES Act, we urge the SBA to issue the necessary waiver to the "Affiliation Rule" that is needed to protect jobs at startups across the nation. Thank you for considering our concerns.

We urge the SBA and Department of the Treasury to review the specifics of our concerns and make every effort to address them so that the vital job creating work we do can continue. Again, ACA greatly appreciates the opportunity to provide these comments and recommendations to you.

Respectfully,



Patrick Gouhin, CEO



Linda Smith, Chair Emeritus and Public Policy Chair